

Report of Independent Certified Public Accountants
on Financial Statements, Supplementary Information, and
Schedule of Expenditures of Federal and State Awards

To the Honorable Mayor and
Members of the City Council
City of Chattanooga, Tennessee

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely-presented component units, each major fund, and the aggregate remaining fund information of the City of Chattanooga, Tennessee, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Chattanooga, Tennessee's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Chattanooga Metropolitan Airport Authority, which represent 25 percent and 28 percent, respectively, of the assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Chattanooga Metropolitan Airport Authority, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Chattanooga, Tennessee, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, the City increased beginning net assets of its governmental activities at June 30, 2004, to include the Library Endowment Fund and the Ochs-Oakes Fire and Police Medal Fund.

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages iii through xiv of the Financial Section and the required supplementary information on pages 53-54 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chattanooga, Tennessee's basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The introductory section, combining and individual nonmajor fund and component unit financial statements, the budgetary comparison schedules included as other supplementary information, financial schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund and component unit financial statements, the budgetary comparison schedules included as other supplementary information, and financial schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Haskett, Lewis & Bieten, PLLC

Chattanooga, Tennessee
October 21, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the City of Chattanooga's annual financial report we offer readers a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2005. Please consider the information presented here in conjunction with the transmittal letter found at the front of this report and with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City of Chattanooga exceeded its liabilities at the close of the fiscal year by \$1.84 billion (*net assets*), an increase of \$8.0 million. Of this amount, \$82.6 million may be used to meet the government's ongoing obligations to citizens and creditors (*unrestricted net assets*), a \$12.2 million increase over last year.
- While the net assets of our business-type activities increased \$11.0 million, or 2.3 percent, the net assets of our governmental activities decreased \$3.0 million, or .18 percent. During the year, the City generated \$216.7 million in taxes and other revenues for governmental programs. This compares with \$219.1 million of expenses for these programs.
- The City of Chattanooga has opted to use depreciation rather than the maintenance method to report infrastructure assets. During the current fiscal year our governmental activities recognized depreciation expense of \$34.1 million including \$22.3 million on infrastructure assets alone.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$83.8 million, a decrease of \$23 million in comparison to last year. The decrease is primarily a result of capital construction funded from bond proceeds received in prior years.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$39.0 million, up \$2.4 million or 6.5 percent over prior year. This represents 22.8 percent of total General Fund expenditures and transfers out.
- The City's primary governmental debt decreased \$5.3 million (1.1 percent) during the current fiscal year. Business-type activity debt decreased from \$213.7 million to \$206.4 million, retiring more debt than they issued while governmental activities debt increased slightly from \$255.8 million to \$257.8 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Chattanooga's financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS. The first two statements are government-wide financial statements. They are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The government-wide financial statements are:

- **Statement of Net Assets** – presents information about the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- **Statement of Activities** – presents information showing how the City's net assets changed during the most recent fiscal year. All current year revenues and expenses are taken into account regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) and other functions that are intended to recover all, or a significant portion, of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and recreation and social services. The business-type activities include the City's electric, sewer and storm water systems, as well as solid waste disposal and housing management operations.

The government-wide financial statements include not only the City itself (known as the *primary government*) but also three legally separate entities (known as *component units*). The Chattanooga Metropolitan Airport Authority, the Chattanooga Area Regional Transportation Authority (CARTA) and the Chattanooga Downtown Redevelopment Corporation, although legally separate from the City, are important because the City is financially accountable for them.

Complete financial statements of the component units may be obtained from: (1) Chattanooga Metropolitan Airport Authority, P. O. Box 22444, Chattanooga, TN 37422; (2) CARTA, 1617 Wilcox Boulevard, Chattanooga, TN 37406 and (3) Chattanooga Downtown Redevelopment Corporation, 427 City Hall Annex, 100 East 11th Street, Chattanooga, Tennessee 37402.

The government-wide financial statements begin on page 1 of this report.

FUND FINANCIAL STATEMENTS. The fund financial statements provide more detailed information about the most significant funds – not the City as a whole. Some funds are required by State or Federal law or by bond covenants; other funds are established by the City to help it manage money for specific purposes (i.e. economic development projects) or to show that it is meeting legal responsibilities for how certain taxes, grants and other monies are used (i.e. grants received from the U. S Department of Housing and Urban Development).

All the funds of the City can be divided into three types of funds: (1) governmental funds, (2) proprietary funds, and (3) fiduciary funds.

- **Governmental Funds** – The City's basic services are included in governmental funds. The focus of these funds is on (1) how cash and other financial assets that can readily be converted to cash were received and used and (2) what remains at the end of the fiscal year for future spending. This

detailed short-term view helps in determining whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not include the additional long-term focus of the government-wide statements, we provide additional information after the governmental fund statements that explain the differences between the long-term view and the short-term view.

The City maintains a general fund, multiple special revenue funds, a debt service fund, a capital projects fund and two permanent funds as governmental funds. Information is presented separately in the governmental statements for the General Fund and the capital projects fund since both of these are considered major funds. Data for the other funds is combined into a single column with individual fund data for each of these nonmajor governmental funds provided in the other supplementary information section of this report.

The City of Chattanooga adopts an annual budget for the General Fund, special revenue funds and the debt service fund. Budgetary comparisons are provided for these funds to demonstrate compliance with the budget: the General Fund budgetary comparison is found in the fund statements of this report and comparisons for special revenue funds and the debt service fund are provided in the other supplementary information section of this report. Both the capital projects fund and the permanent funds are excluded from budgetary reporting since neither adopts an annual budget.

The governmental fund financial statements begin on page 4 of this report.

- **Proprietary Funds** – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. The City of Chattanooga maintains two different types of proprietary funds: enterprise funds and an internal service fund.

Enterprise funds are the same as business-type activities in the government-wide financial statements but provide more detail and additional information, such as cash flows. The Electric Power Board (EPB), Interceptor Sewer System, Storm Water Management and Solid Waste are considered major funds. The only other fund, Housing Management, is also shown on the face of the proprietary fund financial statements.

Internal service fund provides services for other City activities. The City of Chattanooga accounts for maintenance of City vehicles and risk financing in the internal service fund. Because these services predominantly benefit governmental rather than business-type functions, they have been included in governmental activities in the government-wide financial statements.

The proprietary fund statements begin on page 9 of this report.

- **Fiduciary Funds** – These funds are used to account for resources held for the benefit of others outside the government. During the year the net assets of the City's two private-purpose trust funds were transferred to the Hamilton County Department of Education by request of the trusts. At year-end the City retained pension trust funds for the various pension plans as the only fiduciary funds. The City is responsible for ensuring that the assets are used for their intended purposes, however, we exclude these activities from the City's government-wide financial statements since these assets cannot be used to finance City operations. The City's fiduciary activities are reported in statements of fiduciary net assets and changes in fiduciary net assets in the fund financial statements.

The fiduciary fund financial statements begin on page 14 of this report.

As previously stated, the City includes three legally separate component units in the government-wide financial statements. Financial information is provided for each component unit beginning on page 16 of this report.

NOTES TO THE FINANCIAL STATEMENTS. The financial statements also include notes that provide additional information that is essential to a full understanding of the government-wide and fund financial statements.

The notes to the financial statements begin on page 18 of this report.

SUPPLEMENTARY INFORMATION. In addition to the basic financial statements discussed above, this report also contains supplementary information.

- **Required Supplementary Information** – Information about the City's progress in funding its obligation to provide pension benefits to its employees.
- **Other Supplementary Information** – This includes the combining statements for nonmajor governmental funds, private-purpose trust funds and discretely presented component units. It also includes a more detailed budget to actual comparison for General Fund and budget to actual comparisons for special revenue funds and the debt service fund.

Both the required and other supplementary information can be found following the notes to the financial statements.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets. Net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$1.84 billion at the close of the most recent fiscal year, an increase of \$8.0 million, or .44 percent, from last year.

By far the largest portion of the City's net assets (94 percent) reflects its investment in capital assets (land, buildings, equipment, infrastructure, etc), less any related debt used to acquire those assets. Because capital assets are used to provide services to citizens the assets are not available for future spending. It should be noted that although the City reports capital assets net of related debt, the resources needed to repay the debt must be provided from other sources.

A portion of the City's net assets, \$26.0 million or 1.4 percent, represents resources that are restricted in how they may be used. The remaining balance of \$82.6 million may be used to meet the City's ongoing obligations, a \$12.1 million increase.

At the end of the fiscal year, the City of Chattanooga is able to report a positive net asset balance for the government as a whole, as well as for its governmental and business-type activities.

City of Chattanooga's Net Assets

(in thousands)

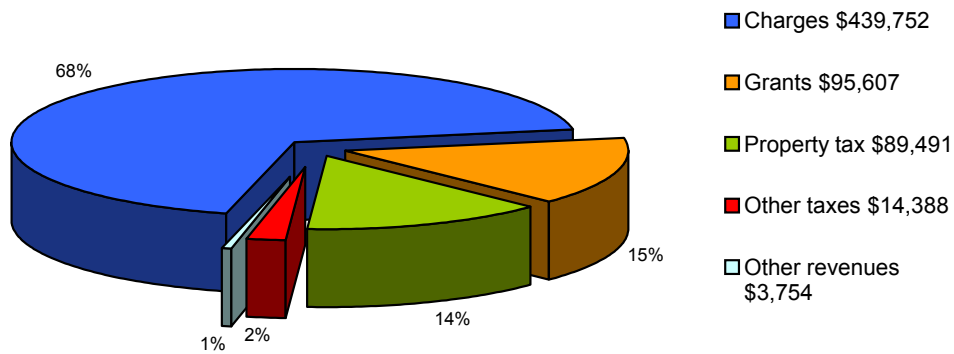
	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 211,607	\$ 234,600	\$ 165,759	\$ 184,459	\$ 377,366	\$ 419,059
Capital assets	1,530,278	1,505,270	647,845	625,078	2,178,123	2,130,348
Total assets	1,741,885	1,739,870	813,604	809,537	2,555,489	2,549,407
Long-term debt outstanding	273,948	272,032	208,376	214,912	482,324	486,944
Other liabilities	109,003	105,945	120,073	120,441	229,076	226,386
Total liabilities	382,951	377,977	328,449	335,353	711,400	713,330
Net assets:						
Invested in capital assets, net of debt	1,277,884	1,281,946	457,613	428,284	1,735,497	1,710,230
Restricted	7,713	35,211	18,301	20,236	26,014	55,447
Unrestricted	73,337	44,736	9,241	25,664	82,578	70,400
Total net assets	\$ 1,358,934	\$ 1,361,893	\$ 485,155	\$ 474,184	\$ 1,844,089	\$ 1,836,077

CHANGES IN NET ASSETS. Net assets of the City's governmental activities were \$1.4 million, a slight reduction from the prior year. Of that balance \$1.29 billion are either restricted as to how they may be used or are invested in capital assets (buildings, roads, bridges, and so on). Therefore \$73.3 million remains to meet the City's ongoing obligations to citizens and creditors, a \$28.6 million increase.

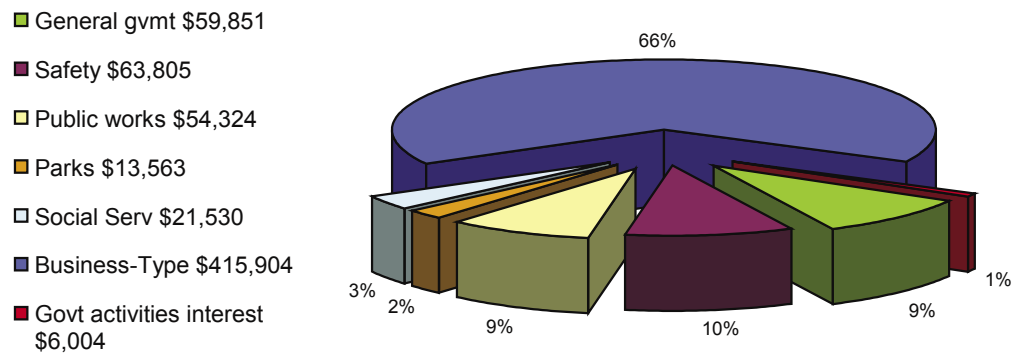
During the current year the net assets of the business-type activities increased \$11.0 million or 2.3 percent to \$485.2 million. These net assets are dedicated solely to finance the continuing operations of the electric, sewer, and storm water systems, and solid waste disposal and housing management operations.

The following graphs summarize the sources of the City's total revenues of \$643.0 million and total program expenses of \$635.0 million. These graphs combine governmental and business-type information.

City Wide Sources of Revenue (In thousands)



City Wide Program Expenses (In thousands)



In order to provide a complete picture of the changes in net assets of the City, information is provided separately for the net assets of governmental and business-type activities. See the table on the following page.

City of Chattanooga's Changes in Net Assets

(in thousands)

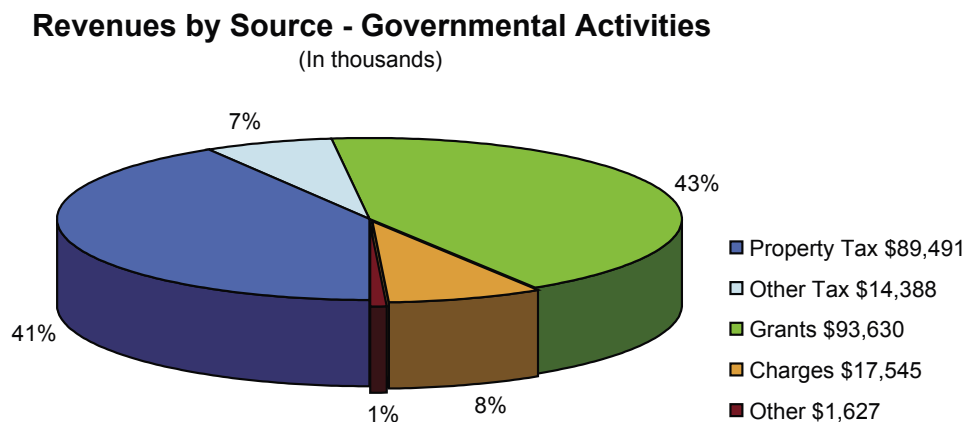
	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues:						
Charges for services	\$ 17,545	\$ 18,836	\$ 422,207	\$ 424,924	\$ 439,752	\$ 443,760
Grants and contributions	45,129	45,590	1,977	2,055	47,106	47,645
General revenues:						
Property taxes	89,491	87,093	-	-	89,491	87,093
Other taxes	14,388	29,530	-	-	14,388	29,530
Investment income	1,546	183	1,942	1,578	3,488	1,761
Miscellaneous	-	-	185	12	185	12
Unrestricted grants	48,501	34,896	-	-	48,501	34,896
Gain on sale of assets	81	249	-	-	81	249
Total revenues	<u>216,681</u>	<u>216,377</u>	<u>426,311</u>	<u>428,569</u>	<u>642,992</u>	<u>644,946</u>
Expenses						
Governmental activities:						
General government	59,851	59,111	-	-	59,851	59,111
Public safety	63,805	62,984	-	-	63,805	62,984
Public works	54,324	50,610	-	-	54,324	50,610
Parks and recreation	13,563	12,981	-	-	13,563	12,981
Social services	21,530	26,059	-	-	21,530	26,059
Interest on long-term debt	6,004	6,097	-	-	6,004	6,097
Business-type activities:						
Electric utility	-	-	371,630	374,823	371,630	374,823
Sewer	-	-	33,607	32,726	33,607	32,726
Solid waste	-	-	4,260	4,719	4,260	4,719
Storm water	-	-	4,709	4,312	4,709	4,312
Housing management	-	-	1,698	1,718	1,698	1,718
Total expenses	<u>219,077</u>	<u>217,842</u>	<u>415,904</u>	<u>418,298</u>	<u>634,981</u>	<u>636,140</u>
Excess (deficiency) before special item and transfers	(2,396)	(1,465)	10,407	10,271	8,011	8,806
Special item-state highway contribution	-	17,096	-	-	-	17,096
Transfers	<u>(563)</u>	<u>(684)</u>	<u>563</u>	<u>684</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	<u>\$ (2,959)</u>	<u>\$ 14,947</u>	<u>\$ 10,970</u>	<u>\$ 10,955</u>	<u>\$ 8,011</u>	<u>\$ 25,902</u>

The following will consider the operations of governmental and business-type activities separately and in greater detail.

GOVERNMENTAL ACTIVITIES. Current fiscal year revenues for the City's governmental activities were \$216.7 million compared to \$216.4 million last year, up .14 percent. Current year expenses were \$219.1 million compared with \$217.8 million last year, an increase of .57 percent.

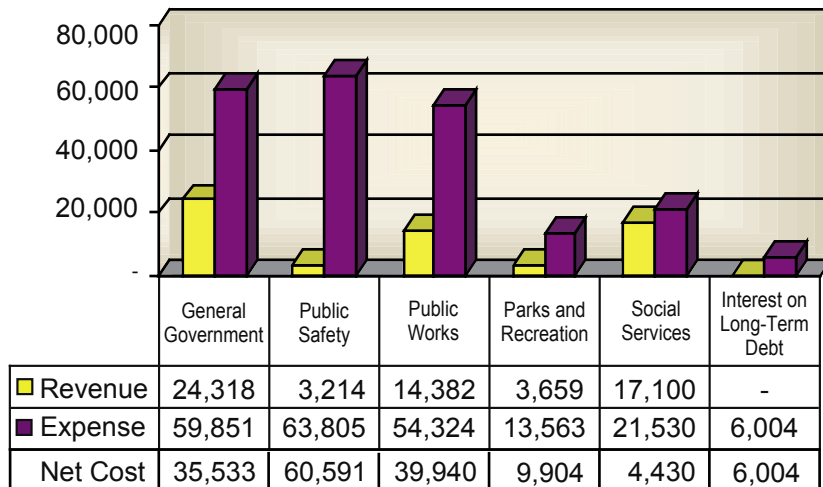
- The single largest source of governmental activity revenue, property taxes and in-lieu of tax receipts increased by \$2.3 million, or 2.6 percent. This increase was offset by the elimination of the city-only sales tax as discussed in the "Financial Analysis of the City's Funds" for the general fund (see p. xiv).
- The \$1.2 million increase in expenditures includes a step increase for employees of approximately 1.8 percent. Also included is \$1.1 million in infrastructure donations and abandonments. Insurance and pension contributions remained virtually unchanged.

The graph below presents the major sources of revenue for governmental activities. A chart is also presented to show the expenses associated with providing each service of the City as compared with the revenue generated by each. This will show the net cost, or the financial burden placed on City taxpayers for each program.



Expenses and Program Revenues Governmental Activities

(In thousands)



BUSINESS-TYPE ACTIVITIES. Revenues for the City's business-type activities were \$426.3 million for the year just completed; this is a \$2.2 million decrease or .53 percent. The decrease in revenue was more than offset by a \$2.3 million, .57 percent decrease in expenses, to \$416.0 million. All business-type activities are briefly covered below.

Electric Power Board

- The largest source of business-type activity revenue is generated from the Electric Power Board. Operating revenue from electric customers dropped by \$4.3 million, 1.2 percent, due to decreased power usage as a result of milder temperatures. This loss in revenue was more than offset by a \$8.5 million reduction in operating costs including a \$7.6 million drop in purchased power costs.
- Total net assets of the Electric Power Board increased \$4.7 million to \$239.7 million for fiscal year 2005, an increase of 2.0 percent.
- Net assets invested in capital and restricted for use total \$244.0 leaving a negative \$4.3 million available to finance day-to-day operations (unrestricted net assets).

Interceptor Sewer System

- Net assets of the Interceptor Sewer System increased \$3.1 million, 1.4 percent, to \$231.2 million.
- Operating expenses rose only \$691,000, 2.5 percent, while operating revenues rose \$823,000, 2.3 percent. There was a modest increase in all categories of operating revenue due to rate increases.

- Unrestricted net assets, those that can be used to finance on-going operations, increased \$3.8 million to \$32.6 million. An additional \$7.0 million is restricted for future capital spending.

Solid-Waste Fund

- The City of Chattanooga operates a municipal solid waste landfill. In 1991 the Environmental Protection Agency (EPA) issued an unfunded Federal mandate establishing closure and postclosure care requirements for such landfills. As a result of an aggressive program to meet these requirements, the Solid Waste Fund remains in a negative net asset position. However during fiscal year 2005 net assets increased by \$2.0 million or 11 percent. This follows a \$1.3 million increase in fiscal year 2004.
- To date the City has accrued liabilities of \$4.9 million for a closed landfill and \$4.6 million for a landfill currently in operation, a \$260,000 or 2.8 percent increase over last year. Many of these costs are being financed through general obligation bonds.
- The major customer of the landfill is the City itself. During the current fiscal year tipping fees from the City of Chattanooga were \$4.9 million, 83 percent of total tipping fees.

Stormwater Management

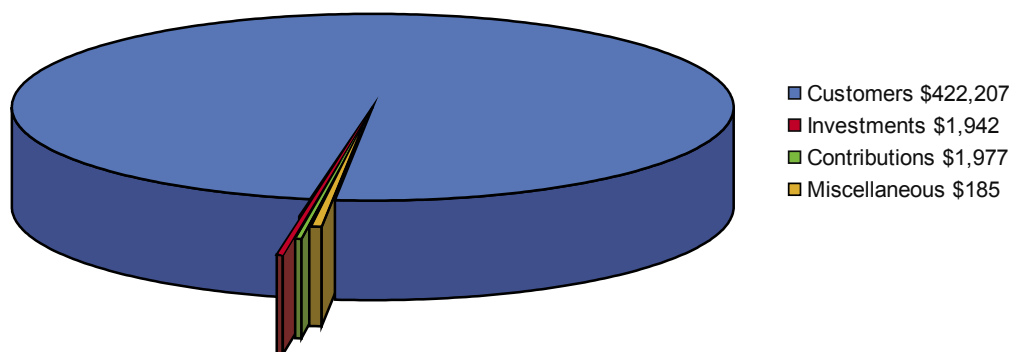
- The Stormwater Fund, established to comply with EPA guidelines, now has \$26.4 million in net assets, an increase of \$1.5 million, 5.8 percent, from last year.
- \$20.7 million of the net assets are invested in capital assets as a result of the aggressive capital campaign designed to continually improve storm water drainage and discharge within the City. This is a \$2.2 million, 11.7 percent increase.
- The amount set aside for capital improvements and the amount available to fund day-to-day operations decreased from a combined \$5.4 million to \$4.7 million. Capital improvements are being paid from net assets instead of being funded through debt.

Housing Management

- The Housing Management Fund reported \$1.3 million in rental income, a decrease of 3.7 percent from last year. During the same period operating expenses decreased 1.2 percent to \$1.5 million.
- The fund ended the year with net assets of \$4.3 million, a decrease of \$330,000, or 7.1 percent. All of the net assets are invested in capital leaving a deficit of \$237,000 in assets available to meet on-going operations.

The following graph presents the major sources of revenue for business-type activities. Also presented is a chart showing the operating expense of each business-type activity as compared to operating revenue generated.

**Revenues by Source
Business-Type Activities**
(In thousands)



**Operating Expenses and Revenues
Business-Type Activities**
(in thousands)

	Electric	Sewer	Solid Waste	Storm Water	Housing
Revenue	\$ 373,490	\$ 35,976	\$ 5,965	\$ 5,492	\$ 1,367
Expense	368,971	28,348	2,979	3,875	1,475
Operating income (loss)	<u>\$ 4,519</u>	<u>\$ 7,628</u>	<u>\$ 2,986</u>	<u>\$ 1,617</u>	<u>\$ (108)</u>

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City of Chattanooga uses fund accounting to help it control and manage money for particular purposes or to demonstrate compliance with legal requirements. The following provides a more detailed analysis of the City's funds.

GOVERNMENTAL FUNDS. Governmental funds focus on providing information on the near-term flow of resources. The City's governmental funds reported a combined fund balance of \$83.8 million at the end of the fiscal year. 72.3 percent of this amount (\$60.6 million) is available for day-to-day operations (unreserved fund balance). All of the governmental funds reported a positive ending fund balance. Information about the major governmental funds is presented below.

General Fund. This is the chief operating fund of the City of Chattanooga. Total fund balance of the City's General Fund decreased by 3.8 percent or \$1.9 million to \$47.5 million during the fiscal year. Unreserved fund balance was \$44.0 million, of which \$5.0 million is designated for future spending. During the same period unreserved, undesignated fund balance increased \$2.4 million or 6.5 percent. Key factors are as follows:

- Total revenues decreased \$3.1 million from the prior year.
 - o The reduction in revenue is solely due to the passage by referendum to increase the county-wide sales tax by 1/2 percent effective July 1, 2004 superceding the former city-only sales tax which generated \$18.4 million. These taxes are now collected as part of the county-wide sales tax with 50% returned to the city as intergovernmental revenue. The remaining 50% is paid directly by the county to the Hamilton County Department of Education. There is minimal impact on net operations however, since the education funding no longer flows through the city.
 - o Licenses and permits were \$3.1 million lower for fiscal year 2005 primarily due to a \$3.6 million reclassification of gross receipts taxes.
 - o Taxes decreased \$12.1 million due to the passage of a 1/2 cent county-wide sales tax as described above. The largest tax revenue, property taxes, increased \$2.3 million, or 2.6 percent, due to increased assessments resulting from economic growth.
 - o Intergovernmental revenues increased \$11.4 million over the prior year with county-wide sales tax being the largest component. As discussed above, the city-only sales tax was replaced by a half percent increase in county-wide sales tax; the city's share of this additional tax was \$9.6 million for the year.
- Expenditures decreased from \$148.7 million to \$148.4 million.
 - o Salaries and fringe benefits rose by approximately \$2.7 million or 3.1 percent over last year.
 - o General Fund's share of lease payments due under a lease agreement with the Chattanooga Downtown Redevelopment Corporation increased by \$1.4 million primarily due to a reduction in funding from the sales tax generated in the tourist development zone and reduced cash flows from operations of The Chattanooga Hotel.
 - o The increases above are more than offset by an \$8.4 million reduction as a result of the repeal of the city-only sales tax and discontinued funding for the Hamilton County Department of Education.

Capital Projects Fund. This fund focuses on project-to-date costs for many projects within the City. At the end of the year, the fund reported \$16.6 million in fund balance all of which was reserved for completion of projects already begun. Fund balance for this fund fluctuates from year to year based on debt issued and expenditures for projects; new debt increases fund balance while construction decreases it. For fiscal year 2005 there was a \$25.2 million decrease. Analysis of project income and expenditures follows.

- Cash inflows for the year include \$7.3 million in notes, \$9.9 million received from federal, state and county governments, \$3.8 million in contributions (including \$2.0 million in CDRC swaption proceeds) and \$9.0 million in transfer from General Fund.
- Current year expenditures of \$57.5 million include \$29.2 million for construction of the waterfront development, \$3.1 million for street, traffic light and streetscape improvements, \$1.8 million for

park improvements, \$4.7 million for industrial development at Enterprise South and \$3.5 million for fire and police equipment.

PROPRIETARY FUNDS. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As the City completed the fiscal year its proprietary funds, which include both enterprise funds and an internal service fund, had combined net assets of \$485.2 million.

- \$8.9 million was available to meet on-going obligations. The majority, \$485.0 million is invested in capital assets with an additional \$18.3 million restricted for future use.
- Net assets of the enterprise funds rose \$10.9 million, 2.3 percent. Factors concerning the finances of the enterprise funds have already been addressed in the discussion of the City's business-type activities.
- The internal service fund serves City government by providing fuel and vehicle maintenance and by accounting for the City's liability for self-insurance. Fund balance for this fund decreased \$1.7 million, 104 percent from the previous year as a result of an unfunded accrual for potential liabilities at year-end.

GENERAL FUND BUDGETARY HIGHLIGHTS. The City's budget ordinance provides for the basic functions of City government, encompassing all major departments and agencies of the City. There were no differences between original and final budgets since reallocations within the General Fund are authorized in the budget ordinance.

When comparing final budgeted revenues to actual, there was a \$6.4 million surplus for the year with all revenue categories higher than budget. Property tax collections for fiscal year 2005 not only exceeded prior year collections, they also exceeded budget expectations. The same is true of county-wide sales tax. As a result, taxes and intergovernmental revenues exceeded budget by \$2.8 million and \$1.9 million, respectively.

Expenditures were less than budgetary estimates by almost \$1.0 million. All departments were below budget as a result of the continuation of vacancy control and performance management programs. The budget for General Fund anticipated using \$8.2 million of fund balance during the year; less than \$2.0 million was actually used.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS. At the end of this year, the City had \$2.2 billion (net of accumulated depreciation) invested in capital assets, an increase of 2.2 percent. This investment includes land, buildings, utility system improvements, machinery and equipment, park facilities and infrastructure. The following table shows the investment in capital assets by both governmental activities and business-type activities.

City of Chattanooga's Capital Assets

(net of depreciation, in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Non-depreciable:						
Land & Easements	\$ 963,319	\$ 950,594	\$ 14,005	\$ 13,596	\$ 977,324	\$ 964,190
Work in progress	69,401	88,656	34,283	17,678	103,684	106,334
Depreciable:						
Buildings	116,161	70,061	52,899	52,071	169,060	122,132
Equipment	27,123	27,819	237,361	218,078	264,484	245,897
Improvements	7,914	6,883	-	-	7,914	6,883
Infrastructure	346,360	361,257	309,297	323,655	655,657	684,912
Total	<u>\$1,530,278</u>	<u>\$1,505,270</u>	<u>\$ 647,845</u>	<u>\$ 625,078</u>	<u>\$2,178,123</u>	<u>\$2,130,348</u>

This year's major capital asset additions include:

- Land purchases include \$3.6 million for additional land at Enterprise South Industrial Park.
- The major additions to work-in-progress are \$29.2 million on the 21st Century Waterfront development and \$1.2 million for development of the Enterprise South Industrial Park.
- Building additions include \$48.3 million Chattanooga Convention Center expansion, \$680,100 Hixson Civic Center and \$526,500 exhibit at the Chattanooga Zoo; all of these completed projects moved from work-in-progress.
- Street improvements of \$9.6 million and greenways near the University of Tennessee at Chattanooga of \$615,500 were the major additions to infrastructure. Street improvements include \$3.1 million of donated streets from contractors.
- The Electric Power Board invested \$42.5 million in plant assets for the year. This includes \$13.9 million in power distribution systems, \$17.5 in building under construction and \$4.9 million for telecommunications and internet improvements.
- \$7.5 million was capitalized as new infrastructure for the Interceptor Sewer System.

The capital budget for fiscal year 2006 anticipates spending \$37.9 million for various capital projects including \$8.9 million in City Hall renovation, \$2.0 for an animal shelter and \$8.7 for roadways at Enterprise South Industrial Park. An additional \$14.6 million in bonds has been approved for fiscal year 2006 to help finance these projects.

More detailed information about the City's capital assets is presented in the notes to the financial statements.

City of Chattanooga's Long-term Debt

(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds (backed by the City)	\$ 125,317	\$128,898	\$125,388	\$137,667	\$250,705	\$266,565
Revenue bonds (backed by specific revenues)	-	-	33,600	35,200	33,600	35,200
Notes payable	13,594	7,159	47,212	40,606	60,806	47,765
Capital leases	118,843	119,725	234	253	119,077	119,978
Total	<u>\$ 257,754</u>	<u>\$255,782</u>	<u>\$206,434</u>	<u>\$213,726</u>	<u>\$464,188</u>	<u>\$469,508</u>

DEBT ADMINISTRATION. At year-end the City had \$464.2 million in long-term debt outstanding. This is a \$5.3 million decrease (1.1 percent) from last year. Detail is shown in the table above and narrative below.

- The City of Chattanooga maintains a "AA" rating from both Standard & Poor's and Fitch Investor's Service for general obligation debt.
- City Charter limits the amount of general obligation debt a City can issue to 10 percent of the assessed value of all taxable property within the City's corporate limits. For the current fiscal year that limit is \$331.9 million. The City's tax-supported debt of \$82.2 million is well within that limit.

During the year the City issued the following new debt:

- Additional draws of \$1.2 million were made on a \$5.0 million Fannie Mae loan approved in FY04 to fund the Hope VI project, a governmental activity. The loan will be repaid by Community Development Block Grant program revenue. Currently \$1.5 million is outstanding.
- Additional draws of \$6.1 million were made on two state revolving loan funds for governmental activities capital. The total combined loan amount is \$31.0 million. At year-end there was \$7.4 million outstanding.
- \$5.6 million in additional draws on a \$37.3 million state revolving loan approved in fiscal year 2003. \$37.2 million was outstanding at year-end. The loan is financing Interceptor Sewer System (a business-type activity) projects already in progress.
- \$1.8 million of notes payable for telecommunications equipment. The loan will be paid from revenue from EPB telecommunications operations; EPB is a business-type activity.

In addition to new debt issued, the City issued \$51.4 million of refunding bonds to save an estimated \$1.9 million in future interest costs. This advance refunding includes both governmental and business-type activity bonded debt.

More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following factors were taken into account when adopting the General Fund budget for 2006:

- Conservative forecasts are for local and state tax collections to continue improving.
- Interest rates are on the rise.
- The local unemployment rate remains significantly below the state average of 6.4 percent at 5.5 percent. However it is slightly higher than the national average of 5.2 percent.

Anticipated revenues in the General Fund budget are \$170.3 million, up 3.2 percent from the 2005 budget. Property tax, county-wide and state sales tax collections are projected to grow by 2 percent, 4 percent and 2 percent, respectively, based on an improving economy. Interest earnings are estimated to increase by 22.8 percent due to increased available funds and higher interest rates. Fines, forfeitures and penalties are expected to increase by 7 percent because of better collections of court fines and clerk fees.

Budgeted expenditures are expected to increase 3.2 percent to \$170.3 million from \$164.9 million. Salaries and fringe benefits are expected to increase by 4.97 percent while operations have a slight increase of 1.57 percent. The City will continue the vacancy control policy to manage the costs associated with salaries and benefits. No change in fund balance of the General Fund is expected for fiscal year 2006.

As for the City's business-type activities, we expect that the 2006 results should see another modest increase to net assets.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

City of Chattanooga Finance Department
100 East 11th Street
Chattanooga, Tennessee 37402
(423) 757-5232
www.chattanooga.gov

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET ASSETS
June 30, 2005

	Primary Government			Components Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 23,886,444	\$ 59,750,673	\$ 83,637,117	\$ 4,383,967
Investments	47,382,472	38,585,644	85,968,116	661,059
Receivables, net of allowance for uncollectibles	121,757,628	39,408,958	161,166,586	2,826,789
Net investment in capital lease	-	-	-	115,925,472
Due from component units	375,000	-	375,000	-
Due from primary government	-	-	-	411,412
Deferred charges	-	2,810,781	2,810,781	2,065,341
Inventories	1,819,544	5,906,693	7,726,237	329,862
Prepaid items	38,740	1,142,862	1,181,602	720,534
Other assets	-	4,440,614	4,440,614	-
Restricted assets:				
Cash and cash equivalents	41,188	-	41,188	1,605,579
Investments	4,472,708	13,702,432	18,175,140	13,638,700
Endowment investments	3,176,515	-	3,176,515	-
Receivables	-	10,423	10,423	313,849
Net pension assets	8,656,714	-	8,656,714	127,952
Land and other nondepreciable assets	1,032,719,443	48,288,371	1,081,007,814	13,502,007
Other capital assets, net of accumulated depreciation	497,558,433	599,556,661	1,097,115,094	64,655,731
Total assets	1,741,884,829	813,604,112	2,555,488,941	221,168,254
LIABILITIES				
Accounts payable and accrued liabilities	16,627,195	77,005,764	93,632,959	4,618,378
Customer deposits	-	12,650,000	12,650,000	-
Internal balances	(194,155)	194,155	-	-
Due to component units	411,412	-	411,412	-
Due to primary government	-	-	-	375,000
Contracts payable	593,763	439,499	1,033,262	404,877
Unearned revenue	91,564,542	-	91,564,542	27,521
Accrued closure and post-closure care	-	9,555,619	9,555,619	-
Accrued postretirement benefits	-	10,038,000	10,038,000	-
Other liabilities	-	10,190,484	10,190,484	-
Long-term liabilities:				
Due within one year	12,914,771	16,333,141	29,247,912	644,780
Due in more than one year	261,033,320	192,042,796	453,076,116	143,263,428
Total liabilities	382,950,848	328,449,458	711,400,306	149,333,984
NET ASSETS				
Invested in capital assets, net of related debt	1,277,883,814	457,612,822	1,735,496,636	63,541,766
Restricted for:				
Capital projects	4,513,896	-	4,513,896	-
Debt service	-	-	-	14,289,527
Renewal and replacement	-	18,300,530	18,300,530	722,868
Permanent endowments:				
Expendable	73,056	-	73,056	-
Nonexpendable	3,126,561	-	3,126,561	-
Unrestricted	73,336,654	9,241,302	82,577,956	(6,719,891)
Total net assets	\$ 1,358,933,981	\$ 485,154,654	\$ 1,844,088,635	\$ 71,834,270

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities:				
General government	\$ 59,850,789	\$ 8,523,871	\$ 6,625,226	\$ 9,168,410
Public safety	63,805,046	864,536	1,593,139	756,788
Public works	54,323,539	2,390,699	4,587,414	7,405,030
Parks and recreation	13,562,609	2,768,211	476,079	414,446
Social services	21,530,148	2,997,590	14,102,302	-
Interest on long-term debt	6,004,530	-	-	-
Total governmental activities	<u>219,076,661</u>	<u>17,544,907</u>	<u>27,384,160</u>	<u>17,744,674</u>
Business-type activities:				
Electric utility	371,630,000	373,490,000	-	1,723,000
Sewer	33,606,869	35,976,537	-	170,247
Solid waste/sanitation	4,260,270	5,881,486	83,652	-
Storm water	4,709,090	5,491,938	-	-
Housing management	1,698,166	1,367,348	-	-
Total business-type activities	<u>415,904,395</u>	<u>422,207,309</u>	<u>83,652</u>	<u>1,893,247</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 634,981,056</u>	<u>\$ 439,752,216</u>	<u>\$ 27,467,812</u>	<u>\$ 19,637,921</u>
Component units:				
Airport authority	\$ 8,068,254	\$ 6,946,840	\$ -	\$ 4,213,370
Transportation authority	16,017,064	4,159,873	6,124,936	3,315,131
Downtown redevelopment	19,521,035	17,668,297	-	-
TOTAL COMPONENT UNITS	<u>\$ 43,606,353</u>	<u>\$ 28,775,010</u>	<u>\$ 6,124,936</u>	<u>\$ 7,528,501</u>
General revenues:				
Property taxes				
Liquor and beer taxes				
Other taxes				
Unrestricted investment earnings				
Miscellaneous				
Grants and contributions not allocated to specific programs				
Gain on sale of capital assets				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets, beginning				
Net assets, ending				

The Notes to Basic Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Components Units
Governmental Activities	Business-type Activities	Total	
\$ (35,533,282)	\$ -	\$ (35,533,282)	\$ -
(60,590,583)	-	(60,590,583)	-
(39,940,396)	-	(39,940,396)	-
(9,903,873)	-	(9,903,873)	-
(4,430,256)	-	(4,430,256)	-
(6,004,530)	-	(6,004,530)	-
<u>(156,402,920)</u>	<u>-</u>	<u>(156,402,920)</u>	<u>-</u>
-	3,583,000	3,583,000	-
-	2,539,915	2,539,915	-
-	1,704,868	1,704,868	-
-	782,848	782,848	-
-	(330,818)	(330,818)	-
<u>-</u>	<u>8,279,813</u>	<u>8,279,813</u>	<u>-</u>
<u>(156,402,920)</u>	<u>8,279,813</u>	<u>(148,123,107)</u>	<u>-</u>
-	-	-	3,091,956
-	-	-	(2,417,124)
-	-	-	<u>(1,852,738)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,177,906)</u>
89,490,700	-	89,490,700	-
6,245,169	-	6,245,169	-
8,142,921	-	8,142,921	-
1,545,737	1,942,076	3,487,813	774,369
-	184,682	184,682	980,317
48,501,241	-	48,501,241	-
81,638	-	81,638	-
<u>(563,637)</u>	<u>563,637</u>	<u>-</u>	<u>-</u>
<u>153,443,769</u>	<u>2,690,395</u>	<u>156,134,164</u>	<u>1,754,686</u>
(2,959,151)	10,970,208	8,011,057	576,780
<u>1,361,893,132</u>	<u>474,184,446</u>	<u>1,836,077,578</u>	<u>71,257,490</u>
<u>\$ 1,358,933,981</u>	<u>\$ 485,154,654</u>	<u>\$ 1,844,088,635</u>	<u>\$ 71,834,270</u>

CITY OF CHATTANOOGA, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 6,673,237	\$ 1,571,992	\$14,714,761	\$ 22,959,990
Investments	40,070,995	10,129,753	4,830,947	55,031,695
Receivables, net of allowance for uncollectibles:				
Taxes	87,863,934	-	-	87,863,934
Accounts	-	63,703	185,217	248,920
Notes	1,500,000	921,380	-	2,421,380
Other	4,336,315	-	-	4,336,315
Due from other funds	7,214	1,667,838	1,227,309	2,902,361
Due from component units	375,000	-	-	375,000
Due from other governments	18,795,416	4,955,277	2,869,805	26,620,498
Inventories	949,875	-	-	949,875
Prepaid items	8,081	-	30,659	38,740
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$160,580,067</u>	<u>\$19,309,943</u>	<u>\$23,858,698</u>	<u>\$203,748,708</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 5,535,206	\$ 1,362,584	\$ 1,639,876	\$ 8,537,666
Due to other funds	4,172,642	-	1,479,866	5,652,508
Due to other governments	1,080,325	383,050	187,493	1,650,868
Due to component unit	-	411,412	-	411,412
Deferred revenue	102,341,694	-	755,989	103,097,683
Contracts payable	-	593,763	-	593,763
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>113,129,867</u>	<u>2,750,809</u>	<u>4,063,224</u>	<u>119,943,900</u>
Fund balances:				
Reserved for:				
Encumbrances	1,015,784	-	44,407	1,060,191
Library endowment	-	-	3,125,561	3,125,561
Public safety awards	-	-	1,000	1,000
Inventories	949,875	-	-	949,875
Prepaid items	8,081	-	-	8,081
Capital improvements	-	16,559,134	-	16,559,134
Notes receivable	1,500,000	-	-	1,500,000
Unreserved, designated for:				
Debt service	-	-	6,471,929	6,471,929
Subsequent years' expenditures	5,000,477	-	-	5,000,477
Unreserved, undesignated, reported in:				
General fund	38,975,983	-	-	38,975,983
Special revenue	-	-	10,079,521	10,079,521
Permanent funds	-	-	73,056	73,056
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>47,450,200</u>	<u>16,559,134</u>	<u>19,795,474</u>	<u>83,804,808</u>
Total liabilities and fund balances	<u>\$160,580,067</u>	<u>\$19,309,943</u>	<u>\$23,858,698</u>	<u>\$203,748,708</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2005

Differences in amounts reported for governmental activities in the statement of net assets
on page 1:

Fund balances - total governmental funds	\$ 83,804,808
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Amounts reported for governmental activities in the statement of net
assets are different because:

Capital assets used in government activities are not financial resources and, therefore, are not reported in the funds.	1,529,879,892
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Certain revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	11,533,141
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The General Pension Plan has been funded in excess of annual required contributions, creating a net pension asset. This asset is not a currently available financial resource and is not reported in the funds.	8,656,714
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Internal service fund is used by management to charge the costs of fleet management and risk management activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	35,076
--	--------

Long-term liabilities are not due and payable in the current period
and therefore are not reported in the funds. Interest on long-term
debt is not accrued in governmental funds, but rather is recognized
as an expenditure when due. All liabilities, both current and
long-term, are reported in the statement of net assets. This item
consists of the following:

General obligation serial bonds	\$(125,317,464)	
Less net deferred refunding and original premiums and discounts	724,797	
Notes payable	(13,594,190)	
Capital leases	(118,842,663)	
Compensated absences	(16,373,002)	
Accrued interest payable	<u>(1,573,128)</u>	
		<u>(274,975,650)</u>

Net assets of governmental activities	<u>\$1,358,933,981</u>
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The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year Ended June 30, 2005

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 101,295,560	\$ -	\$ 2,583,318	\$ 103,878,878
Licenses and permits	4,092,969	-	-	4,092,969
Intergovernmental	52,354,359	9,971,567	22,495,200	84,821,126
Charges for services	3,774,828	-	141,512	3,916,340
Fines, forfeitures, and penalties	1,410,642	-	-	1,410,642
Investment income	1,191,283	661,256	356,695	2,209,234
Contributions and donations	-	3,760,840	500	3,761,340
Miscellaneous	4,719,001	71,498	3,613,783	8,404,282
Total revenues	<u>168,838,642</u>	<u>14,465,161</u>	<u>29,191,008</u>	<u>212,494,811</u>
EXPENDITURES				
Current:				
General government	46,699,756	-	18,758,516	65,458,272
Public safety	62,075,048	-	162,307	62,237,355
Public works	26,937,744	-	4,685,412	31,623,156
Parks and recreation	12,707,873	-	-	12,707,873
Community development	-	-	3,839,453	3,839,453
Capital outlay/fixed assets	-	57,181,588	281,867	57,463,455
Debt service:				
Principal retirement	-	-	5,777,360	5,777,360
Interest and fiscal charges	-	327,280	6,171,437	6,498,717
Total expenditures	<u>148,420,421</u>	<u>57,508,868</u>	<u>39,676,352</u>	<u>245,605,641</u>
Excess (deficiency) of revenues over (under) expenditures	<u>20,418,221</u>	<u>(43,043,707)</u>	<u>(10,485,344)</u>	<u>(33,110,830)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	12,695,410	15,093,792	27,789,202
Transfers out	(22,327,382)	(2,480,853)	(3,544,604)	(28,352,839)
Proceeds of notes payable	-	7,339,369	-	7,339,369
Refunding bonds issued	-	22,906,508	-	22,906,508
Premium on refunding bonds	-	1,319,753	-	1,319,753
Payment to refunded bonds escrow agent	-	(23,958,331)	-	(23,958,331)
Total other financing sources (uses)	<u>(22,327,382)</u>	<u>17,821,856</u>	<u>11,549,188</u>	<u>7,043,662</u>
Net change in fund balance	<u>(1,909,161)</u>	<u>(25,221,851)</u>	<u>1,063,844</u>	<u>(26,067,168)</u>
FUND BALANCE, beginning	<u>49,359,361</u>	<u>41,780,985</u>	<u>18,731,630</u>	<u>109,871,976</u>
FUND BALANCE, ending	<u>\$ 47,450,200</u>	<u>\$ 16,559,134</u>	<u>\$ 19,795,474</u>	<u>\$ 83,804,808</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Differences in amounts reported for governmental activities in the statement of activities on pages 2 and 3:

Net change in fund balances - total governmental funds	\$ (26,067,168)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlay expenditures in governmental funds, that meet the capitalization threshold, are shown as capital assets in the statement of net assets.	57,506,685
Depreciation expense on governmental capital assets are included in the governmental activities in the statement of activities.	(34,027,359)
Contributions of capital assets are not reflected in the governmental funds, but are reported in the statement of activities. This item consists of streets contributed by developers	3,101,488
The net effect of various transactions involving capital assets is to decrease net assets.	(1,486,616)
Proceeds of long-term debt (e.g., bonds, notes) provide financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and deferred amounts on refundings when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(1,361,935)
The net expenses of internal service funds are reported with governmental activities.	(1,662,258)
Certain items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditure in the governmental funds.	(46,837)
Governmental revenues that provide current financial resources are reported in the governmental funds, while revenues that will not be collected for several months after the fiscal year are deferred. The statement of activities includes certain revenues that do not provide current financial resources.	<u>1,084,849</u>
Change in net assets of governmental activities	<u>\$ (2,959,151)</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Taxes	\$ 99,177,137	\$ 99,177,137	\$101,295,560	\$ 2,118,423
Licenses and permits	3,833,567	3,833,567	4,092,969	259,402
Intergovernmental	49,709,458	49,709,458	52,354,359	2,644,901
Charges for services	3,473,302	3,473,302	3,774,828	301,526
Fines, forfeitures, and penalties	1,091,759	1,091,759	1,410,642	318,883
Miscellaneous	5,133,903	5,133,903	5,910,284	776,381
Total revenues	<u>162,419,126</u>	<u>162,419,126</u>	<u>168,838,642</u>	<u>6,419,516</u>
EXPENDITURES				
General government	37,278,095	37,278,095	36,961,125	(316,970)
Finance and Administration	8,492,464	8,492,464	8,443,525	(48,939)
Police	37,287,574	37,287,574	37,152,667	(134,907)
Fire	25,255,234	25,255,234	24,834,413	(420,821)
Public Works	27,063,425	27,063,425	26,995,000	(68,425)
Parks and Recreation	12,712,349	12,712,349	12,712,170	(179)
Total expenditures	<u>148,089,141</u>	<u>148,089,141</u>	<u>147,098,900</u>	<u>(990,241)</u>
Excess of revenues over expenditures	<u>14,329,985</u>	<u>14,329,985</u>	<u>21,739,742</u>	<u>7,409,757</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(22,494,170)</u>	<u>(22,494,170)</u>	<u>(22,327,382)</u>	<u>166,788</u>
Total other financing sources (uses)	<u>(22,494,170)</u>	<u>(22,494,170)</u>	<u>(22,327,382)</u>	<u>166,788</u>
Net change in fund balance	<u>\$ (8,164,185)</u>	<u>\$ (8,164,185)</u>	<u>(587,640)</u>	<u>\$ 7,576,545</u>
Adjustment for encumbrances			<u>(1,321,521)</u>	
Net change in fund balance (GAAP basis)			<u>(1,909,161)</u>	
FUND BALANCE at beginning of year (GAAP basis)			<u>49,359,361</u>	
FUND BALANCE at end of year (GAAP basis)			<u>\$ 47,450,200</u>	
EXPLANATION OF DIFFERENCES:				
REVENUES				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 168,838,642	
Differences - none			<u>-</u>	
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$168,838,642</u>	
EXPENDITURES				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 147,098,900	
Adjustment for encumbrances			<u>1,321,521</u>	
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$148,420,421</u>	

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

June 30, 2005

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Fund
	Major Funds				Other Fund		
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Storm Water	Housing Management	Total	
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents	\$ 39,926,000	\$ 9,026,216	\$ 4,643,975	\$ 5,920,433	\$ 234,049	\$ 59,750,673	\$ 967,642
Investments	13,105,000	24,981,212	-	499,432	-	38,585,644	-
Receivables:							
Customer service	34,958,000	3,711,301	78,743	732,918	-	39,480,962	142,966
Other	339,000	54,162	-	-	-	393,162	-
Less allowance for doubtful accounts	(560,000)	(1,575)	(600)	(406,991)	-	(969,166)	-
Inventories	5,340,000	566,693	-	-	-	5,906,693	869,669
Prepaid items	1,097,000	30,398	2,089	8,597	4,778	1,142,862	-
Due from other funds	-	-	-	-	-	-	2,945,333
Due from other governments	-	-	85,000	-	-	85,000	123,615
Other current assets	506,000	-	-	-	59,614	565,614	-
Total current assets	94,711,000	38,368,407	4,809,207	6,754,389	298,441	144,941,444	5,049,225
NONCURRENT ASSETS							
Restricted assets:							
Investments	787,000	1,373,684	11,541,748	-	-	13,702,432	-
Accounts receivable	-	-	10,423	-	-	10,423	-
Total restricted assets	787,000	1,373,684	11,552,171	-	-	13,712,855	-
Capital assets:							
Land	3,442,000	7,974,738	1,517,514	987,330	83,789	14,005,371	-
Buildings	16,667,000	41,303,711	1,717,098	-	8,719,028	68,406,837	589,948
Vehicles and machinery	390,756,000	30,198,104	5,075,045	1,313,284	957	427,343,390	1,154,632
Construction in progress	34,283,000	-	-	-	-	34,283,000	-
Sewer system	-	399,808,197	-	-	-	399,808,197	-
Storm water system	-	-	-	42,496,355	-	42,496,355	-
Telecommunications system	22,622,000	-	-	-	-	22,622,000	-
Less accumulated depreciation	467,770,000 (190,618,000)	479,284,750 (158,303,435)	8,309,657 (4,589,317)	44,796,969 (6,528,581)	8,803,774 (1,080,785)	1,008,965,150 (361,120,118)	1,744,580 (1,346,596)
Net capital assets	277,152,000	320,981,315	3,720,340	38,268,388	7,722,989	647,845,032	397,984
Other assets:							
Deferred charges	1,151,000	1,252,536	245,325	161,920	-	2,810,781	-
Conservation loans receivable	419,000	-	-	-	-	419,000	-
TVA discounted energy units	3,875,000	-	-	-	-	3,875,000	-
Total other assets	5,445,000	1,252,536	245,325	161,920	-	7,104,781	-
Total noncurrent assets	283,384,000	323,607,535	15,517,836	38,430,308	7,722,989	668,662,668	397,984
Total assets	\$ 378,095,000	\$ 361,975,942	\$ 20,327,043	\$ 45,184,697	\$ 8,021,430	\$ 813,604,112	\$ 5,447,209

The Notes to Basic Financial Statements are an integral part of this statement.

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		Governmental Activities - Internal Service Fund
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Storm Water	Housing Management	Total	
LIABILITIES							
CURRENT LIABILITIES							
Current maturities of long-term liabilities	\$ 1,942,000	\$ 10,819,467	\$ 2,015,002	\$ 1,556,672	\$ -	\$ 16,333,141	\$ 163,993
Accounts payable and accrued liabilities	69,289,000	2,797,870	625,453	652,196	3,641,245	77,005,764	201,533
Accrued claims	-	-	-	-	-	-	4,664,000
Deposits	12,650,000	-	-	-	-	12,650,000	-
Contracts payable	-	399,258	-	40,241	-	439,499	-
Conservation advances	344,000	-	-	-	-	344,000	-
Due to other funds	-	87,870	65,920	40,365	-	194,155	1,031
Other current liabilities	5,212,000	-	-	-	-	5,212,000	-
Total current liabilities	89,437,000	14,104,465	2,706,375	2,289,474	3,641,245	112,178,559	5,030,557
LONG-TERM LIABILITIES							
Notes and capital leases payable	1,432,000	42,517,237	-	1,150,183	-	45,099,420	-
Compensated absences	962,000	544,929	97,774	123,426	-	1,728,129	381,576
Accrued closure and post closure care	-	-	9,555,619	-	-	9,555,619	-
Revenue bonds payable	32,000,000	-	-	-	-	32,000,000	-
Original issue discount	(58,000)	-	-	-	-	(58,000)	-
General obligation bonds payable	-	74,361,101	24,052,649	14,995,854	-	113,409,604	-
Deferred refunding	-	(3,792,829)	(883,709)	(565,631)	-	(5,242,169)	-
Original issue premium	-	3,068,019	1,212,588	825,205	-	5,105,812	-
Other noncurrent liabilities	4,575,000	-	-	-	59,484	4,634,484	-
Accrued postretirement benefits	10,038,000	-	-	-	-	10,038,000	-
Total long-term liabilities	48,949,000	116,698,457	34,034,921	16,529,037	59,484	216,270,899	381,576
Total liabilities	138,386,000	130,802,922	36,741,296	18,818,511	3,700,729	328,449,458	5,412,133
NET ASSETS (DEFICIT)							
Invested in capital assets, net of related debt	242,188,000	191,607,146	(1,483,013)	20,742,622	4,558,067	457,612,822	397,984
Restricted for renewal and replacement	1,774,000	7,001,079	8,605,555	919,896	-	18,300,530	-
Unrestricted	(4,253,000)	32,564,795	(23,536,795)	4,703,668	(237,366)	9,241,302	(362,908)
Total net assets (deficit)	\$ 239,709,000	\$231,173,020	\$ (16,414,253)	\$ 26,366,186	\$ 4,320,701	\$ 485,154,654	\$ 35,076

CITY OF CHATTANOOGA, TENNESSEE

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS
Year Ended June 30, 2005

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		Governmental Activities - Internal Service Fund
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Storm Water	Housing Management	Total	
OPERATING REVENUES							
Charges for sales and services:							
Electric sales	\$ 356,153,000	\$ -	\$ -	\$ -	\$ -	\$ 356,153,000	\$ -
Sewer charges	-	35,976,537	-	-	-	35,976,537	-
Waste charges	-	-	5,881,486	-	-	5,881,486	-
Stormwater fees	-	-	-	5,424,966	-	5,424,966	-
Rent	-	-	-	-	1,346,944	1,346,944	-
Other services	17,337,000	-	-	66,972	20,404	17,424,376	9,761,492
Other	-	-	83,652	-	-	83,652	-
Total operating revenues	373,490,000	35,976,537	5,965,138	5,491,938	1,367,348	422,290,961	9,761,492
OPERATING EXPENSES							
Power purchases	291,947,000	-	-	-	-	291,947,000	-
Sewer plant operations	-	17,005,042	-	-	-	17,005,042	-
Solid waste operations	-	-	1,870,879	-	-	1,870,879	-
Storm water operations	-	-	-	2,963,730	-	2,963,730	-
Pump station operations	-	1,643,449	-	-	-	1,643,449	-
Housing management operations	-	-	-	-	1,096,766	1,096,766	-
Municipal garage operations	-	-	-	-	-	-	2,221,349
Maintenance and repairs	12,264,000	-	-	-	-	12,264,000	6,444,567
Depreciation and amortization	15,776,000	9,699,724	589,758	911,002	378,687	27,355,171	86,525
Closure/postclosure costs	-	-	517,996	-	-	517,996	-
Liability insurance	-	-	-	-	-	-	2,671,309
Other	48,984,000	-	-	-	-	48,984,000	-
Total operating expenses	368,971,000	28,348,215	2,978,633	3,874,732	1,475,453	405,648,033	11,423,750
OPERATING INCOME (LOSS)	4,519,000	7,628,322	2,986,505	1,617,206	(108,105)	16,642,928	(1,662,258)
NONOPERATING REVENUES (EXPENSES)							
Investment income	1,105,000	600,780	225,222	10,073	1,001	1,942,076	-
Interest expense	(859,000)	(5,258,654)	(1,281,637)	(834,358)	(222,713)	(8,456,362)	-
Other income (expense)	(1,800,000)	34,973	147,541	2,168	-	(1,615,318)	-
Total nonoperating revenues (expenses)	(1,554,000)	(4,622,901)	(908,874)	(822,117)	(221,712)	(8,129,604)	-
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	2,965,000	3,005,421	2,077,631	795,089	(329,817)	8,513,324	(1,662,258)
Capital contributions	1,723,000	170,247	-	-	-	1,893,247	-
Transfers in	-	438	-	686,460	-	686,898	-
Transfers out	-	(53,019)	(44,690)	(25,552)	-	(123,261)	-
CHANGE IN NET ASSETS	4,688,000	3,123,087	2,032,941	1,455,997	(329,817)	10,970,208	(1,662,258)
NET ASSETS (DEFICIT), beginning	235,021,000	228,049,933	(18,447,194)	24,910,189	4,650,518	474,184,446	1,697,334
NET ASSETS (DEFICIT), ending	\$ 239,709,000	\$ 231,173,020	\$ (16,414,253)	\$ 26,366,186	\$ 4,320,701	\$ 485,154,654	\$ 35,076

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS
Year Ended June 30, 2005

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		Governmental Activities - Internal Service Fund
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Storm Water	Housing Management	Total	
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers and users	\$ 373,882,000	\$ 37,737,630	\$ 5,940,146	\$ 5,560,924	\$ 1,367,348	\$ 424,488,048	\$ 519,079
Receipts from interfund services provided	-	-	-	-	-	-	8,424,980
Receipts from operating grants	-	-	83,652	-	-	83,652	-
Payments to suppliers	(320,439,000)	(12,919,154)	(1,342,800)	(683,560)	(1,017,836)	(336,402,350)	(6,628,294)
Payments to employees	(21,288,000)	(5,327,475)	(563,500)	(1,803,251)	-	(28,982,226)	(2,791,407)
Payments in lieu of taxes	(8,651,000)	-	-	-	-	(8,651,000)	-
Net cash provided by (used in) operating activities	23,504,000	19,491,001	4,117,498	3,074,113	349,512	50,536,124	(475,642)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers in	-	438	-	686,460	-	686,898	-
Transfers out	-	(53,019)	(44,690)	(25,552)	-	(123,261)	-
Net cash provided by (used in) noncapital financing activities	-	(52,581)	(44,690)	660,908	-	563,637	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Proceeds from capital debt	1,432,000	18,169,926	9,880,239	6,043,563	-	35,525,728	-
Principal paid on capital debt	(1,600,000)	(9,373,700)	(1,810,147)	(1,362,078)	(69,091)	(14,215,016)	-
Payments to escrow agent	-	(12,848,368)	(10,006,352)	(6,158,880)	-	(29,013,600)	-
Interest paid on capital debt	(1,756,000)	(5,222,150)	(1,191,420)	(918,977)	(213,297)	(9,301,844)	-
Capital grants and contributions	1,723,000	170,247	-	-	-	1,893,247	-
Additions to capital assets	(41,613,000)	(8,273,045)	(86,198)	(1,499,705)	(31,041)	(51,502,989)	-
Net cash flows used in capital and related financing activities	(41,814,000)	(17,377,090)	(3,213,878)	(3,896,077)	(313,429)	(66,614,474)	-
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchases of investments	-	(162,789,540)	(19,829,026)	(499,432)	-	(183,117,998)	-
Proceeds from sales and maturities of investments	14,876,000	162,354,774	15,666,160	-	-	192,896,934	-
Interest on investments	1,017,000	600,963	227,495	11,228	1,001	1,857,687	-
Net cash flows provided by (used in) investing activities	15,893,000	166,197	(3,935,371)	(488,204)	1,001	11,636,623	-
Net increase (decrease) in cash and cash equivalents	(2,417,000)	2,227,527	(3,076,441)	(649,260)	37,084	(3,878,090)	(475,642)
Cash and cash equivalents, beginning of year	42,343,000	6,798,689	7,720,416	6,569,693	196,965	63,628,763	1,443,284
Cash and cash equivalents, end of year	\$ 39,926,000	\$ 9,026,216	\$ 4,643,975	\$ 5,920,433	\$ 234,049	\$ 59,750,673	\$ 967,642

The Notes to Basic Financial Statements are an integral part of this statement.

(continued on next page)

(continued from previous page)

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Fund
	Major Funds				Other Fund	Total	
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Storm Water	Housing Management		
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES							
OPERATING INCOME	\$ 4,519,000	\$ 7,628,322	\$ 2,986,505	\$ 1,617,206	\$ (108,105)	\$ 16,642,928	\$ (1,662,258)
ADJUSTMENTS NOT AFFECTING CASH							
Depreciation and amortization	16,500,000	9,699,724	589,758	911,002	378,687	28,079,171	86,526
Provision for uncollectible accounts	-	451,868	(704)	55,902	-	507,066	-
Changes in assets and liabilities:							
(Increase) decrease in accounts receivable	833,000	1,185,035	-	(20,807)	140,769	2,137,997	(48,455)
(Increase) decrease in due from other funds	-	-	60,069	-	-	60,069	(800,000)
Decrease in due from other governments	-	-	-	-	-	-	29,991
(Increase) decrease in inventory	(360,000)	29,327	-	-	-	(330,673)	29,087
(Increase) decrease in prepaid items	1,914,000	(30,398)	-	-	-	1,883,602	-
Increase in deferred charges	629,000	29,871	-	-	-	658,871	-
Increase (decrease) in accounts payable	(2,175,000)	153,063	97,353	387,255	(60,119)	(1,597,448)	(101,676)
Increase (decrease) in accrued liabilities	(12,000)	(28,122)	73,455	-	-	33,333	1,990,000
Increase (decrease) in other assets/liabilities	595,000	277,231	250,342	83,190	(1,720)	1,204,043	-
Increase (decrease) in compensated absences	1,061,000	7,210	(5,200)	-	-	1,063,010	112
Increase in due to other funds	-	87,870	65,920	40,365	-	194,155	1,031
TOTAL ADJUSTMENTS	18,985,000	11,862,679	1,130,993	1,456,907	457,617	33,893,196	1,186,616
Net cash provided by (used in) operating activities	\$ 23,504,000	\$ 19,491,001	\$ 4,117,498	\$ 3,074,113	\$ 349,512	\$ 50,536,124	\$ (475,642)

CITY OF CHATTANOOGA, TENNESSEE
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2005

	Pension Trust Funds	Private-Purpose Trust Funds
<hr/>		
ASSETS		
Cash and cash equivalents	\$ -	\$ 4,969
Investments:		
U.S. Government securities	17,180,641	-
Municipal bonds	96,653	-
Corporate bonds	25,352,960	-
Foreign bonds	2,871,847	-
Corporate stocks	189,860,378	-
Mutual funds - equity	86,945,649	-
Mutual funds - fixed income	43,968,640	-
Temporary investments	22,868,652	-
Limited partnerships	25,716,053	-
Other investments	865,000	-
Receivables:		
Accrued income	848,020	-
Contributions	252,096	-
Due from plan custodian	133,715	-
	<hr/>	<hr/>
Total assets	416,960,304	4,969
	<hr/>	<hr/>
LIABILITIES		
Due to plan custodian	750,000	-
Accounts payable and accrued expenses	588,823	-
Due to other governments	-	4,969
	<hr/>	<hr/>
Total liabilities	1,338,823	4,969
	<hr/>	<hr/>
NET ASSETS		
Held in trust for pension benefits and other purposes	<u>\$ 415,621,481</u>	<u>\$ -</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended June 30, 2005

	Pension Trust Funds	Private-Purpose Trust Funds
	<u> </u>	<u> </u>
ADDITIONS		
Contributions:		
Employer	\$ 8,379,041	\$ -
Employee	<u>3,663,694</u>	<u>-</u>
Total contributions	<u>12,042,735</u>	<u>-</u>
Investment income:		
Net appreciation in fair market value of investments	27,226,536	112
Interest	3,784,912	274
Dividends	<u>5,177,541</u>	<u>-</u>
	36,188,989	386
Less investment expense	<u>(1,665,575)</u>	<u>-</u>
Net investment income	<u>34,523,414</u>	<u>386</u>
Total additions	<u>46,566,149</u>	<u>386</u>
DEDUCTIONS		
Benefits paid to participants	26,548,492	-
Administrative expenses	654,067	13
Transfer to Hamilton County Department of Education	<u>-</u>	<u>15,583</u>
Total deductions	<u>27,202,559</u>	<u>15,596</u>
CHANGE IN NET ASSETS	19,363,590	(15,210)
Net assets, beginning	<u>396,257,891</u>	<u>15,210</u>
Net assets, ending	<u><u>\$ 415,621,481</u></u>	<u><u>\$ -</u></u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE
 COMPONENT UNITS
 STATEMENT OF NET ASSETS
 June 30, 2005

	Chattanooga Metropolitan Airport Authority	CARTA	Chattanooga Downtown Redevelopment Corporation	Total
ASSETS				
Cash and cash equivalents	\$ 1,742,725	\$ 875,908	\$ 1,765,334	\$ 4,383,967
Investments	24,464	-	636,595	661,059
Accounts receivable	1,682,708	676,885	467,196	2,826,789
Net investment in capital lease	-	-	115,925,472	115,925,472
Due from primary government	-	-	411,412	411,412
Deferred charges	199,814	-	1,865,527	2,065,341
Inventories	-	144,075	185,787	329,862
Prepaid items	199,209	247,352	273,973	720,534
Net pension asset	-	127,952	-	127,952
Restricted assets:				
Cash and cash equivalents	569,579	1,036,000	-	1,605,579
Investments	3,852,225	-	9,786,475	13,638,700
Receivables	84,623	-	229,226	313,849
Land and other nondepreciable assets	10,404,711	3,097,296	-	13,502,007
Other capital assets, net of accumulated depreciation	<u>38,638,815</u>	<u>25,104,414</u>	<u>912,502</u>	<u>64,655,731</u>
Total assets	<u>57,398,873</u>	<u>31,309,882</u>	<u>132,459,499</u>	<u>221,168,254</u>
LIABILITIES				
Accounts payable and accrued liabilities	622,344	925,070	3,070,964	4,618,378
Contracts payable	404,877	-	-	404,877
Notes payable	-	-	186,703	186,703
Due to primary government	-	375,000	-	375,000
Revenue bonds payable	14,520,000	-	129,200,000	143,720,000
Original issue premium (discount)	(90,731)	-	92,236	1,505
Deferred revenue	<u>4,568</u>	<u>22,953</u>	<u>-</u>	<u>27,521</u>
Total liabilities	<u>15,461,058</u>	<u>1,323,023</u>	<u>132,549,903</u>	<u>149,333,984</u>
NET ASSETS (DEFICIT)				
Invested in capital assets (net of related debt)	34,614,257	28,201,710	725,799	63,541,766
Restricted for:				
Debt service	4,506,427	-	9,783,100	14,289,527
Renewal and replacement	-	-	722,868	722,868
Unrestricted	<u>2,817,131</u>	<u>1,785,149</u>	<u>(11,322,171)</u>	<u>(6,719,891)</u>
Total net assets (deficit)	<u>\$ 41,937,815</u>	<u>\$ 29,986,859</u>	<u>\$ (90,404)</u>	<u>\$ 71,834,270</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE
 COMPONENT UNITS
 STATEMENT OF ACTIVITIES
 Year Ended June 30, 2005

	Program Revenues				Net Revenue (Expense) and Changes in Net Assets			Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Chattanooga Metropolitan Airport Authority	CARTA	Chattanooga Downtown Redevelopment Corporation	
CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY Airport operations	\$ 8,068,254	\$ 6,946,840	\$ -	\$ 4,213,370	\$ 3,091,956	\$ -	\$ -	\$ 3,091,956
CARTA CARTA operations	16,017,064	4,159,873	6,124,936	3,315,131	-	(2,417,124)	-	(2,417,124)
CHATTANOOGA DOWNTOWN REDEVELOPMENT CORPORATION CDRC operations	19,521,035	17,668,297	-	-	-	-	(1,852,738)	(1,852,738)
Total component units	<u>\$ 43,606,353</u>	<u>\$ 28,775,010</u>	<u>\$ 6,124,936</u>	<u>\$ 7,528,501</u>	<u>3,091,956</u>	<u>(2,417,124)</u>	<u>(1,852,738)</u>	<u>(1,177,906)</u>
General revenues:								
Investment income					83,989	3,797	686,583	774,369
Miscellaneous					906,030	74,287	-	980,317
Total general revenues					990,019	78,084	686,583	1,754,686
CHANGE IN NET ASSETS					4,081,975	(2,339,040)	(1,166,155)	576,780
Net assets (deficit), beginning					37,855,840	32,325,899	1,075,751	71,257,490
Net assets (deficit), ending					<u>\$ 41,937,815</u>	<u>\$ 29,986,859</u>	<u>\$ (90,404)</u>	<u>\$ 71,834,270</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

Index to Notes

	<u>Page</u>
Note 1 Summary of Significant Accounting Policies	18-28
Note 2 Restatement of Prior Year Balances	28
Note 3 Stewardship, Compliance and Accountability	28-29
Note 4 Cash and Investments	29-31
Note 5 Receivables	31-32
Note 6 Interfund Receivables and Payables	32
Note 7 Interfund Transfers	32
Note 8 Capital Assets	33-34
Note 9 Long-Term Liabilities	35-40
Note 10 Employee Retirement Systems	41-46
Note 11 Conservation Programs	47
Note 12 Deferred Compensation Plan	47
Note 13 Commitments and Contingencies	47
Note 14 Conduit Debt Obligations	48
Note 15 Joint Venture	48-49
Note 16 Landfill Closure and Postclosure Care Costs	50
Note 17 Risk Management	50-51
Note 18 Component Unit Swaption	51-52

CITY OF CHATTANOOGA, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Chattanooga, Tennessee (the City) was incorporated under the Private Acts of 1869. Through June 11, 1990, the City operated under the Commission form of government, consisting of an elected Mayor and four elected Commissioners, each of whom served as the head of a city department. Pursuant to an Agreed Order dated January 18, 1990, issued by the United States District Court for the Eastern District of Tennessee, Southern Division, the Board of Commissioners of the City and the offices of Mayor and Commissioner were abolished as of June 11, 1990.

The Agreed Order provided that the City Charter be amended to create the office of Mayor, with all executive and administrative authority formerly vested in the Board of Commissioners. Further, the City Council was created with all legislative and quasi-judicial authority formerly vested in the Board of Commissioners. Under the provisions of the Agreed Order, the Mayor is elected at-large and is not a member of the City Council, while the City Council is composed of nine members, with each member elected from one of nine districts within the geographic boundaries of the City.

The financial statements of the City have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board ("FASB") issued after November 30, 1989, are not applied in the preparation of the financial statements of enterprise funds in accordance with an election made by the City under GASB Statement No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

(A) Reporting Entity

In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City's financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit or to impose specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. The primary government includes separately administered organizations that are not legally separate from the City, as discussed below. Blended component units, although legally separate entities, are in substance part of the government's operations and data from these units are combined with data of the primary government. The City has no blended component units at June 30, 2005. Discretely presented component units are reported in a separate column in the basic financial statements to emphasize that they are legally separate from the City. Each discretely presented component unit has a June 30 year-end.

The financial statements of EPB (the Electric Power Board) are included in the accompanying financial statements as part of the primary government because it is not legally separate from the City. The City affirms all board member appointments and approves all disbursements of EPB funds. EPB's operations are reported as an enterprise fund.

Discretely Presented Component Units

Chattanooga Metropolitan Airport Authority - The City appoints all board members and is secondarily responsible for retirement of the revenue bonds recorded as a liability of the Airport Authority. The Airport Authority is presented as a proprietary fund type.

Chattanooga Area Regional Transit Authority (CARTA) - The City appoints ten members of the twelve-member board. Although CARTA has the authority to issue its own debt, the board members serve at the City's discretion and the City finances the majority of CARTA's operating deficits. CARTA is presented as a proprietary fund type.

Chattanooga Downtown Redevelopment Corporation - The City's Mayor, City Council Chairperson, and Chief Finance Officer are permanent members of the Board, and the City appoints the remaining board members. The Corporation has the authority to issue its own debt, but the City has agreed to finance any operating deficits of the Corporation. The Corporation is presented as a proprietary fund type.

Complete financial statements of the component units can be obtained from:

Chattanooga Metropolitan
Airport Authority
P.O. Box 22444
Chattanooga, TN 37422

CARTA
1617 Wilcox Boulevard
Chattanooga, TN 37406

Chattanooga Downtown Redevelopment Corporation
427 City Hall Annex
Chattanooga, TN 37402

(B) Joint Ventures and Related Organizations

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an on-going financial responsibility. The City participates in the following joint venture:

Carter Street Corporation – The Carter Street Corporation, a nonprofit organization, owns a trade center and parking garage that were financed by bonds issued by the Industrial Development Board of Chattanooga. The City and Hamilton County, Tennessee jointly and severally lease the trade center and parking garage. Additional information regarding the City's participation in this joint venture is disclosed in Note 15.

Related Organizations – City officials are also responsible for appointing the members of the boards of other related organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The Mayor or the City Council appoints the Board members of the Chattanooga Housing Authority, The Industrial Development Board of the City of Chattanooga, and The Health, Educational, and Housing Facility Board of the City of Chattanooga. During 2005 the City appropriated no funds to these organizations.

(C) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(D) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within thirty days of the end of the fiscal period, except for property taxes, for which the time period is sixty days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

General Fund – The General Fund accounts for all financial resources applicable to the general operations of City government that are not properly accounted for in another fund. Revenues are derived primarily from taxes and intergovernmental revenues.

Capital Projects Fund – The Capital Projects Fund accounts for the acquisition or construction of capital projects, other than those financed by Enterprise Funds, the Internal Service Fund, or Trust Funds. Revenues are derived primarily from the sale of general obligation bonds and notes, loans, intergovernmental revenues, and earnings on investments.

The City reports the following major enterprise funds:

EPB Fund – The EPB Fund accounts for the cost of providing electric utility and telecommunication service for the residential and commercial concerns of Chattanooga and Hamilton County, Tennessee. The EPB is a separately administered organization whose Board of Trustees is affirmed by the City. All disbursements of the EPB funds are approved by the City.

Interceptor Sewer System Fund – The Interceptor Sewer System Fund accounts for sanitary sewer services provided to the residents of the City. The fund's revenues are derived primarily from user fees and investment earnings.

Solid Waste/Sanitation Fund – The Solid Waste/Sanitation Fund accounts for the costs associated with the disposal of solid waste and recyclable materials.

Storm Water Fund – The Storm Water Fund accounts for costs associated with the City's storm water management program as mandated by the Environmental Protection Agency and the State of Tennessee.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues include charges for services. Operating expenses include costs of services as well as materials, contracts, personnel and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Additionally, the City reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for the payment of interest, principal, and related costs of long-term liabilities of the governmental activities.

Permanent Funds – Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the government's programs.

Internal Service Fund - The Internal Service Fund is used to account for fleet services and risk management activities provided to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis. The costs associated with providing these goods or services are usually recovered from those governmental units that receive benefits.

Pension Trust Funds - The Pension Trust Funds account for resources held in trust for defined benefit pension plans to provide disability and retirement benefits for City employees/retirees. These funds are accounted for in the same manner as business enterprises providing similar services.

Private-Purpose Trust Funds - The Private-Purpose Trust Funds account for resources, including both principal and earnings, which must be expended for specific individuals and purposes according to the provisions of a trust agreement. These funds are accounted for in the same manner as business enterprises providing similar services.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, and 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

(E) Budget Policy and Budgetary Data

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

The City Finance Officer annually obtains information from all officers, departments, boards, commissions, and other agencies of City Government for which appropriations are made and/or revenues are collected and compiles the annual operating budget for the ensuing fiscal year beginning July 1. The compiled information, including various expenditure options and the means of financing them, is submitted to the Mayor.

During May and June, the City Council hears budget requests from agencies and departments at its regularly scheduled meetings. In addition, advertised public hearings are held to allow taxpayers' comments prior to final passage.

Prior to July, the City adopts an interim budget appropriating funds for the usual and ordinary expenses of the City Government in an amount not to exceed one-twelfth of the preceding year's operating budget for each month that the interim budget is in effect. Subsequently, the budget is legally enacted through passage of an ordinance with an operative date of July 1.

Formal budgets are adopted for the General Fund, Special Revenue Funds, and the Debt Service Fund. These formal budgets are adopted on a departmental basis and the line item estimates are from the appropriations ledger and not from a formal budget ordinance. The legal level of budgetary control is the fund level. Transfers of appropriations between funds require the approval of the City Council. The City Finance Officer may make interdepartmental and intradepartmental transfers within the General Fund.

Major capital facilities and improvements, which are accounted for by the City within the Capital Projects Fund, are subject to budgetary control on a project basis. Appropriations for a specific project do not lapse until completion of the project. Because of the project nature of these funds, budgetary comparison statements on an annual basis do not provide meaningful information and, accordingly, are not presented in the accompanying financial statements.

The budgets are prepared on a basis consistent with generally accepted accounting principles except that encumbrances are treated as budget expenditures in the year of the commitment to purchase. Budgetary comparisons presented in the report are on this budgetary basis. All unencumbered and unexpended appropriations lapse at the end of the fiscal year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is utilized for budgetary accounting controls in the governmental funds. Open encumbrances are reported as reservations of fund balances because the commitments will be honored in subsequent years. Encumbrances do not constitute expenditures or liabilities.

Expenditures may not legally exceed appropriations at or above the fund level. All budgeted amounts shown in the financial statements and the accompanying supplementary information reflect the original budget and the amended budget (which may have been adjusted for legally authorized revisions to the annual budgets during the year). During the year ended June 30, 2005, no supplemental appropriations were necessary.

(F) Assets, Liabilities and Fund Equity

1) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits at various financial institutions, and short-term investments with an original maturity of three months or less.

2) Investments

Investments are stated at fair value, except for interest-earning investment contracts that have a remaining maturity of one year or less at the time of purchase. Any change in the value of investments recorded at fair value is included in investment income. Fair value is based on quoted market prices.

3) Inventories and Prepaid Items

Inventories, principally materials, supplies, and replacement parts, are valued at cost in Governmental Funds and at the lower of cost or market in Proprietary Funds, with cost determined using the first-in, first-out (FIFO) method. The costs are recorded as expenditures at the time individual inventory items are consumed (consumption method).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4) Restricted Assets

Proceeds of bonds, as well as resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Also, amounts due from other governments may be included as restricted assets because their use is limited by grant agreements.

5) Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are recorded at their estimated fair market value on the date contributed. Capital assets include public domain infrastructure assets consisting of roads, bridges, streets and sidewalks, sewers, lighting systems, and drainage systems. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 (\$25,000 for infrastructure) and an estimated useful life of three years or greater.

Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Land and certain land improvements are inexhaustible capital assets, and are not depreciated. Depreciation on depreciable capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Buildings	5 – 30 years
Vehicles and machinery	5 – 25 years
Improvements other than buildings	15 years
Sewer system	50 years
Storm water system	50 years
Telecommunications	5 – 40 years
Public domain infrastructure	10 – 50 years

Interest is capitalized on assets acquired with tax-exempt debt. The amount of interest capitalized is the net interest expense incurred (interest expense less interest income) from the date of the borrowing until completion of the project.

5) Bond Discounts and Issuance Costs

In the governmental funds, bond discounts and issuance costs are treated as period costs in the year of issue.

In proprietary funds, bond discounts and issuance costs are deferred and amortized over the term of the bonds using the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges.

At the government-wide level any bond discounts and issuance costs in the governmental funds are adjusted and reported in the same manner as in proprietary funds.

6) Deferred Gain/Loss from Advance Refunding of Debt

In the proprietary funds (and for governmental funds in the government-wide financial statements) the difference between the new debt and the net carrying value of the old debt on refunded debt transactions is deferred. The deferred gain/loss is amortized using the effective interest method over the life of the new debt. The deferred gain/loss is offset against the new liability.

7) Fund Balance

Governmental funds report reservations of fund balance in the fund financial statements for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent management plans that are subject to change.

(G) Revenues, Expenditures and Expenses

Substantially all governmental fund revenues are accrued. Expenditures are recognized when the related fund liability is incurred, except for the following instances permitted by generally accepted accounting principles:

- General obligation long-term debt principal and interest are reported only when due.
- Inventory costs are reported in the period when inventory items are consumed, rather than in the period purchased.

1) Property Taxes

Property taxes are levied by the City annually based upon assessed valuations established by the Hamilton County Assessor of Property. The various types of property are assessed at a percentage of market value as follows:

Farm and residential real property	25%
Commercial and industrial property:	
Real	40%
Personal	30%
Public utilities real and personal property	55%

The property tax levy is without legal limit. The rate, as permitted by Tennessee State Law and City Charter, is set annually by the City Council and collected by the City Treasurer. Property taxes are secured by a statutory lien effective as of the original levy date of January 1. Taxes are due October 1 and become delinquent March 1. Property taxes levied for 2004 are recorded as receivables, net of estimated uncollectible amounts.

The receivables collected during the current fiscal year and those collected by the City Treasurer related to tax levies for 2004, are recorded as revenue in accordance with the principles established by the Governmental Accounting Standards Board. The net receivables estimated to be collectible subsequent to August 29, are recorded as deferred revenues at June 30, 2005.

2) Grant Revenue

The City, a recipient of grant revenues, recognizes revenues (net of estimated uncollectible amounts, if any), when all applicable eligibility requirements, including time requirements, are met. Resources transmitted to the City before the eligibility requirements are met are reported as deferred revenues.

Some grants and contributions consist of capital assets or resources that are restricted for capital purposes—to purchase, construct, or renovate capital assets associated with a specific program. These are reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the City.

3) Investment Income

Investment income from pooled cash and investments is allocated monthly based on the percentage of a fund's average daily equity in pooled cash and investments to the total average daily-pooled equity in pooled cash and investments.

4) Compensated Absences

City employees accrue personal leave, or compensated absences, by prescribed formula based on length of service. The City limits personal leave to one hundred fifty (150) days for employees hired on or before March 27, 1990, and one hundred (100) days for employees hired thereafter. The liability for compensated absences attributable to the City's governmental funds is recorded in the government-wide financial statements.

The non-current portion of the liability for employees of governmental funds is a reconciling item between the fund and government-wide financial statements. Compensated absences related to business-type activities are charged to expense with a corresponding liability established in the government-wide financial statements as well as the applicable business-type funds.

5) Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds to provide services, construct assets and service debt. These transactions are generally reflected as transfers except for transactions reimbursing a fund for expenditures made by it for the benefit of another fund. Such transactions are recorded as expenditures in the disbursing fund and as a reduction of expenditures in the receiving fund. Transactions that would be treated as revenues or expenditures if the involved organizations were external to the City are treated as revenues in the receiving fund and expenditures in the disbursing fund. Transfers within governmental activities and within business-type activities are eliminated upon consolidation.

Amounts owed to one fund or component unit by another are reported as due to/due from other funds or component units. The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Amounts reported in the fund financial statements as due to/due from other funds are subject to elimination upon consolidation. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

6) Payments Between the City and Component Units

Resource flows (except those that affect the statement of net assets/balance sheet only, such as loans and repayments) between a primary government and its discretely presented component units are reported as external transactions—that is, as revenues and expenses. Payments to component units consist of operating subsidy payments by the City to CARTA. The City also makes lease payments to Chattanooga Downtown Redevelopment Corporation. During 2005, Chattanooga Downtown Redevelopment Corporation contributed \$2,000,000 to the City’s Capital Projects Fund for the Waterfront Development Project.

7) Indirect Costs

Certain indirect costs have been included as part of the program expenses reported for the various functional activities.

8) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(H) Net Assets

The government-wide and business-type fund financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets (net of related debt)—is intended to reflect the portion of net assets which are associated with non-liquid capital assets less outstanding capital asset related debt.

Restricted Net Assets—represent net assets that have third party (statutory, bond covenant or granting agency) limitations on their use. The City's policy is generally to use restricted net assets first, as appropriate opportunities arise.

Unrestricted Net Assets—represent unrestricted net assets. While management may have categorized and segmented portions for various purposes, the City has the unrestricted authority to alter these managerial decisions.

NOTE 2. RESTATEMENTS OF PRIOR YEAR BALANCES

During the year ended June 30, 2005, management determined that a library endowment that had existed for several years should be recorded by the City as a Permanent Fund. This revision resulted in recording net assets in the Library Endowment Fund at June 30, 2004 of \$2,984,537, which were not previously recorded.

During 2005 the City also received additional documentation from the donor's heirs regarding the donor's intent related to the Ochs-Oakes Fire and Police Medal Fund. As a result, this fund was reclassified from a Private-Purpose Trust Fund (a Fiduciary Fund) to a Permanent Fund (a Governmental Fund).

Accordingly, beginning net assets of the primary government have been restated to reflect these changes. The impact of the restatements on net assets as previously reported is as follows:

	<u>Governmental Activities</u>
Total net assets at June 30, 2004, as previously reported	\$1,833,028,787
Adjustment related to library endowment	2,984,537
Reclassification from fiduciary funds	<u>64,254</u>
Total net assets at June 30, 2004, as restated	<u>\$1,836,077,578</u>

NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Finance Related Legal and Contractual Provisions

The City incurred no material violations of finance related legal and contractual provisions.

Excess of Expenditures Over Appropriations in Individual Funds

For the year ended June 30, 2005, the City had no material excess of expenditures over appropriations in individual funds.

Net Assets/Fund Balance Deficit

The Solid Waste/Sanitation Fund has a deficit in net assets of \$16,414,253 at June 30, 2005. This deficit resulted from the recognition of cumulative landfill closure and postclosure care costs from prior years. These costs may be covered by charges to future landfill users, taxpayers, or both. The deficit decreased by \$2,032,941 from the prior fiscal year.

NOTE 4. CASH AND INVESTMENTS

The City has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures," for financial reporting of deposit and investment risks.

The City uses a central cash and investment pool for certain Governmental Funds and Proprietary Funds. The cash and investment pool balances are classified as cash and cash equivalents in the accompanying financial statements. The City's investment policy with respect to the cash and investment pool is to maximize investment earnings while maintaining an acceptable level of risk. Because investments in the pool must provide for the future needs of the City, flexibility and liquidity of investments are generally maintained at all times.

At June 30, 2005, investments of the primary government (except for Permanent and Pension Trust Funds) and component units consist of the following:

	Weighted Average Maturity (Years)	Fair Value or Carrying Amount
Primary Government – Governmental Activities:		
U.S. Government agency securities	0.33	\$48,124,353
Certificates of deposit classified as investments	<u>0.89</u>	<u>3,730,827</u>
Total	<u>0.37</u>	<u>\$51,855,180</u>
Primary Government – Business-Type Activities:		
U.S. Government agency securities	0.40	\$43,771,661
Certificates of deposit classified as investments	<u>0.85</u>	<u>8,516,415</u>
Total	<u>0.48</u>	<u>\$52,288,076</u>
Component Units:		
U.S. Treasury Notes	1.33	\$ 2,246,317
U.S. Government agency securities	0.51	11,413,358
Certificates of deposit classified as investments	0.84	636,595
Cash equivalents classified as investments	<u>0.00</u>	<u>3,489</u>
Total	<u>0.65</u>	<u>\$14,299,759</u>

Interest rate risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's policies require purchases of investments with maturities of two years or less. The City presents its exposure to interest rate changes using the weighted average maturity method. The City manages its interest rate risk by limiting the weighted average maturity of its investment portfolio to less than one year. The City's investment portfolio did not experience any significant fluctuations in fair value during the year.

Custodial credit risk - The City's policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. The deposits must be covered by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the City's agent in the City's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the City to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

Credit risk - The City's policies are designed to maximize investment earnings, while protecting the security of principal and providing adequate liquidity, in accordance with all applicable state laws. At June 30, 2005, the primary government's investments in U.S. Government agency securities include Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association bonds, which were rated AAA by Standard & Poor's Rating Service (S & P) or Moody's Investor Service (Moody's).

Component unit investments in U.S. Government agency securities of \$11,413,358 were securities of the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association, which were rated AAA by S & P.

Permanent and Pension Trust funds - The Permanent and Pension Trust funds are managed with long-term objectives that include maximizing total investment earnings. State statutes and City policies allow the Permanent and Pension Trust funds a broader range of investments than other City investments. The City's Pension Trust funds have no investments in any one issuer that represent 5 percent or more of plan net assets. The credit risk of investments of the Permanent and Pension Trust funds is summarized as follows:

	<u>S & P or Moody's Rating</u>	<u>Fair Value</u>
<u>Permanent funds</u>		
Common Trust fund	Not rated	\$ 234,954
Mutual funds - equity	Not rated	1,779,715
Mutual funds - fixed income	Not rated	838,040
Mutual funds - government securities	Not rated	284,146
Cash equivalents classified as investments	Not rated	<u>39,660</u>
		<u><u>\$3,176,515</u></u>

	<u>S & P or Moody's Rating</u>	<u>Fair Value</u>
<u>City of Chattanooga General Pension Plan</u>		
Domestic corporate bonds	B	\$ 1,142,160
Domestic corporate bonds	BA	431,010
Domestic corporate bonds	CA	223,273
Domestic corporate bonds	CAA	1,260,301
Domestic corporate bonds	Not rated	998,002
Mutual funds - equity	Not rated	28,850,935
Mutual funds - fixed income	Not rated	43,968,640
Domestic equity securities	Not rated	87,098,321
Limited partnerships	Not rated	25,716,053
Money market funds	Not rated	<u>3,013,881</u>
		<u>\$192,702,576</u>
<u>Firemen's and Policemen's Insurance and Pension Fund</u>		
U.S. Government securities	AAA	\$ 17,180,641
Domestic corporate bonds	AAA	3,989,060
Domestic corporate bonds	AA	5,395,547
Domestic corporate bonds	A	7,940,596
Foreign bonds	A	1,849,602
Domestic corporate bonds	BAA	3,973,011
Municipal bonds	BAA	96,653
Foreign bonds	BAA	1,022,245
Mutual funds - equity	Not rated	58,094,714
Domestic equity securities	Not rated	102,762,057
Money market funds	Not rated	19,854,771
Investment in real estate corporation	Not rated	<u>865,000</u>
		<u>\$223,023,897</u>

NOTE 5. RECEIVABLES

Receivables at June 30, 2005, consist of the following:

	<u>Governmental Activities Funds</u>			<u>Business-Type Activities</u>	<u>Total</u>
	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental</u>		
Primary Government					
Receivables:					
Taxes	\$ 90,705,919	\$ -	\$ -	\$ -	\$ 90,705,919
Accounts	-	63,703	188,760	10,423	262,886
Notes	1,500,000	921,380	-	-	2,421,380
Customer service	-	-	-	39,480,962	39,480,962
Other	4,336,315	-	-	393,162	4,729,477
Intergovernmental	<u>18,795,416</u>	<u>4,955,277</u>	<u>2,869,805</u>	<u>85,000</u>	<u>26,705,498</u>
Gross receivables	115,337,650	5,940,360	3,058,565	39,969,547	164,306,122
Less:					
Allowance for uncollectibles	<u>(2,841,985)</u>	<u>-</u>	<u>(3,543)</u>	<u>(969,166)</u>	<u>(3,814,694)</u>
Net receivables	<u>\$112,495,665</u>	<u>\$5,940,360</u>	<u>\$3,055,022</u>	<u>\$39,000,381</u>	<u>\$160,491,428</u>

Taxes receivable include the uncollected property taxes from tax levies made during the current and past nine years, as well as the anticipated levy for the current calendar year. The allowance for uncollectible taxes is the weighted average percentage of prior year collections on delinquent taxes to the total delinquent taxes receivable at June 30, 2005.

NOTE 6. INTERFUND RECEIVABLES AND PAYABLES

Receivable Fund	Payable Fund	Amount
Internal Service Fund	General Fund	\$2,945,333
Capital Projects Fund	Nonmajor Governmental Funds (Hotel/Motel)	1,478,529
Capital Projects Fund	Major Enterprise Funds	
	Interceptor Sewer Fund	83,416
	Solid Waste/Sanitation Fund	65,688
	Storm Water Fund	40,205
General Fund	Nonmajor Governmental Funds	
	Public Library	67
	Human Services	870
	State Street Aid	400
General Fund	Major Enterprise Funds	
	Interceptor Sewer Fund	4,454
	Solid Waste/Sanitation Fund	232
	Storm Water Fund	160
General Fund	Internal Service Fund	1,031
Nonmajor Governmental Funds (Debt Service)	General Fund	<u>1,227,309</u>
		<u>\$5,847,694</u>

NOTE 7. INTERFUND TRANSFERS

	Transfers In:				Total
	Capital Projects	Nonmajor Governmental	Interceptor Sewer System	Storm Water	
Transfers out:					
General Fund	\$ 9,050,000	\$12,593,430	\$ -	\$683,952	\$22,327,382
Capital Projects Fund	-	2,480,853	-	-	2,480,853
Nonmajor Governmental Funds	3,525,095	19,509	-	-	3,544,604
Interceptor Sewer System	53,019	-	-	-	53,019
Solid Waste/Sanitation	41,744	-	438	2,508	44,690
Storm Water	<u>25,552</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,552</u>
Total	<u>\$12,695,410</u>	<u>\$15,093,792</u>	<u>\$438</u>	<u>\$686,460</u>	<u>\$28,476,100</u>

Transfers are used to 1) move revenues from the fund with collection authorization to the Debt Service Fund as debt service principal and interest payments become due, 2) move restricted amounts from borrowings to the Capital Projects Fund and the Debt Service Fund as required, and 3) move unrestricted revenues to finance various programs that the City must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

NOTE 8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 is as follows:

Primary Government

Governmental Activities:

	Beginning Balance	Additions	Deductions	Ending Balance
Non-Depreciable Assets:				
Land and land improvements	\$ 950,593,586	\$13,032,190	\$ 306,992	\$ 963,318,784
Construction in Progress	<u>88,656,540</u>	<u>38,963,772</u>	<u>58,219,653</u>	<u>69,400,659</u>
Total non-depreciable assets	<u>1,039,250,126</u>	<u>51,995,962</u>	<u>58,526,645</u>	<u>1,032,719,443</u>
Depreciable Assets:				
Buildings	105,836,941	49,983,087	329,637	155,490,391
Vehicles and machinery	84,518,301	6,675,012	1,481,299	89,712,014
Improvements other than buildings	20,323,908	2,010,289	357,897	21,976,300
Infrastructure	<u>561,402,092</u>	<u>7,990,150</u>	<u>790,992</u>	<u>568,601,250</u>
Total depreciable assets	<u>772,081,242</u>	<u>66,658,538</u>	<u>2,959,825</u>	<u>835,779,955</u>
Less Accumulated Depreciation for:				
Buildings	35,776,315	3,885,542	332,659	39,329,198
Vehicles and machinery	56,698,860	7,261,064	1,370,729	62,589,195
Improvements other than buildings	13,440,621	622,456	1,170	14,061,907
Infrastructure	<u>200,145,368</u>	<u>22,344,822</u>	<u>248,968</u>	<u>222,241,222</u>
Total accumulated depreciation	<u>306,061,164</u>	<u>34,113,884</u>	<u>1,953,526</u>	<u>338,221,522</u>
Depreciable Assets, net	<u>466,020,078</u>	<u>32,544,654</u>	<u>1,006,299</u>	<u>497,558,433</u>
Governmental activities capital assets, net	<u>\$1,505,270,204</u>	<u>\$84,540,616</u>	<u>\$59,532,944</u>	<u>\$1,530,277,876</u>

Business-Type Activities:

Non-Depreciable Assets:				
Land	\$ 13,596,466	\$ 408,905	\$ -	\$ 14,005,371
Construction in Progress	<u>17,678,000</u>	<u>17,476,000</u>	<u>871,000</u>	<u>34,283,000</u>
Total non-depreciable assets	<u>31,274,466</u>	<u>17,884,905</u>	<u>871,000</u>	<u>48,288,371</u>
Depreciable Assets:				
Buildings	67,793,082	613,755	-	68,406,837
Vehicles and machinery	393,316,998	38,097,473	4,071,081	427,343,390
Sewer system	410,053,295	13,646,876	23,891,974	399,808,197
Storm water system	41,142,881	1,471,075	117,601	42,496,355
Telecommunications	<u>17,644,000</u>	<u>4,980,000</u>	<u>2,000</u>	<u>22,622,000</u>
Total depreciable assets	<u>929,950,256</u>	<u>58,809,179</u>	<u>28,082,656</u>	<u>960,676,779</u>
Less Accumulated Depreciation for:				
Buildings	15,722,258	2,088,055	2,302,000	15,508,313
Vehicles and machinery	175,238,960	14,822,559	79,653	189,981,866
Sewer system	135,445,480	7,788,106	-	143,233,586
Storm water system	4,611,902	838,451	-	5,450,353
Telecommunications	<u>5,128,000</u>	<u>1,818,000</u>	<u>-</u>	<u>6,946,000</u>
Total accumulated depreciation	<u>336,146,600</u>	<u>27,355,171</u>	<u>2,381,653</u>	<u>361,120,118</u>
Depreciable Assets, net	<u>593,803,656</u>	<u>31,454,008</u>	<u>25,701,003</u>	<u>599,556,661</u>
Business-type activities capital assets, net	<u>\$ 625,078,122</u>	<u>\$49,338,913</u>	<u>\$26,572,003</u>	<u>\$ 647,845,032</u>

Discretely Presented Component Units

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Non-Depreciable Assets:				
Land	\$ 4,380,320	\$ -	\$ -	\$ 4,380,320
Construction in Progress	<u>5,652,155</u>	<u>4,119,532</u>	<u>650,000</u>	<u>9,121,687</u>
Total non-depreciable assets	<u>10,032,475</u>	<u>4,119,532</u>	<u>650,000</u>	<u>13,502,007</u>
Depreciable Assets:				
Buildings	48,407,381	439,383	-	48,846,764
Vehicles and machinery	38,761,798	1,494,094	270,148	39,985,744
Improvements other than buildings	<u>32,132,291</u>	<u>1,260,120</u>	<u>7,604</u>	<u>33,384,807</u>
Total depreciable assets	<u>119,301,470</u>	<u>3,193,597</u>	<u>277,752</u>	<u>122,217,315</u>
Less Accumulated Depreciation for:				
Buildings	25,938,439	2,012,258	5,070	27,945,627
Vehicles and machinery	22,711,716	2,992,489	270,148	25,434,057
Improvements other than buildings	<u>2,905,728</u>	<u>1,276,172</u>	<u>-</u>	<u>4,181,900</u>
Total accumulated depreciation	<u>51,555,883</u>	<u>6,280,919</u>	<u>275,218</u>	<u>57,561,584</u>
Depreciable Assets, net	<u>67,745,587</u>	<u>(3,087,322)</u>	<u>2,534</u>	<u>64,655,731</u>
Component units capital assets, net	<u>\$ 77,778,062</u>	<u>\$ 1,032,210</u>	<u>\$ 652,534</u>	<u>\$ 78,157,738</u>

Depreciation expense is charged to functions as follows:**Primary Government – Governmental Activities:**

General government	\$10,457,257
Public Safety	1,411,186
Public Works	21,320,603
Parks and Recreation	812,416
Social Services	<u>112,422</u>
Total	<u>\$34,113,884</u>

Primary Government – Business-Type Activities:

Sewer	\$ 9,699,724
Solid Waste/Sanitation	589,758
Storm Water	911,002
Housing Management	378,687
Electric Utility	<u>15,776,000</u>
Total	<u>\$27,355,171</u>

Discretely Presented Component Units:

Transportation Authority	\$ 3,581,438
Airport Authority	2,594,228
Downtown Redevelopment	<u>105,253</u>
Total	<u>\$ 6,280,919</u>

NOTE 9. LONG-TERM LIABILITIES

Changes in long-term liabilities for the fiscal year ended June 30, 2005, were as follows:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due Within One Year
Primary Government					
GOVERNMENTAL ACTIVITIES					
General obligation serial bonds	\$128,897,803	\$22,906,508	\$26,486,847	\$125,317,464	\$ 4,637,068
Notes payable	7,158,924	7,339,369	904,103	13,594,190	2,471,335
Capital leases payable	119,725,472	-	882,809	118,842,663	566,954
Compensated absences	<u>16,364,606</u>	<u>8,146,215</u>	<u>7,592,250</u>	<u>16,918,571</u>	<u>5,239,414</u>
Total governmental activities	<u>\$272,146,805</u>	<u>\$38,392,092</u>	<u>\$35,866,009</u>	274,672,888	<u>\$12,914,771</u>
Net deferred refunding and original issue premiums and discounts				<u>(724,797)</u>	
				<u>\$273,948,091</u>	
BUSINESS-TYPE ACTIVITIES					
EPB:					
Revenue bonds	\$ 35,200,000	\$ -	\$ 1,600,000	\$ 33,600,000	\$ 1,600,000
Notes payable	-	1,829,000	55,000	1,774,000	342,000
Compensated absences	<u>1,021,000</u>	<u>-</u>	<u>59,000</u>	<u>962,000</u>	<u>-</u>
	<u>36,221,000</u>	<u>1,829,000</u>	<u>1,714,000</u>	<u>36,336,000</u>	<u>1,942,000</u>
Interceptor Sewer System:					
General obligation serial bonds	92,029,992	12,545,129	21,553,106	83,022,015	8,660,914
Notes payable	39,165,671	5,625,234	650,550	44,140,355	1,837,680
Capital leases payable	253,304	-	18,851	234,453	19,891
Compensated absences	<u>838,702</u>	<u>474,434</u>	<u>467,225</u>	<u>845,911</u>	<u>300,982</u>
	<u>132,287,669</u>	<u>18,644,797</u>	<u>22,689,732</u>	<u>128,242,734</u>	<u>10,819,467</u>
Solid Waste/Sanitation Fund:					
General obligation serial bonds	27,977,366	9,877,292	11,813,554	26,041,104	1,988,455
Compensated absences	<u>129,521</u>	<u>28,555</u>	<u>33,755</u>	<u>124,321</u>	<u>26,547</u>
	<u>28,106,887</u>	<u>9,905,847</u>	<u>11,847,309</u>	<u>26,165,425</u>	<u>2,015,002</u>
Storm Water Fund:					
General obligation serial bonds	17,659,840	6,046,071	7,381,494	16,324,417	1,328,563
Notes payable	1,439,893	-	141,972	1,297,921	147,738
Compensated absences	<u>211,433</u>	<u>125,070</u>	<u>132,706</u>	<u>203,797</u>	<u>80,371</u>
	<u>19,311,166</u>	<u>6,171,141</u>	<u>7,656,172</u>	<u>17,826,135</u>	<u>1,556,672</u>
Total business-type activities	<u>\$215,926,722</u>	<u>\$36,550,785</u>	<u>\$43,907,213</u>	208,570,294	<u>\$16,333,141</u>
Net deferred refunding and original issue premiums and discounts				<u>(194,357)</u>	
				<u>\$208,375,937</u>	

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due Within One Year
Discretely Presented Component Units					
Metropolitan Airport Authority:					
Revenue bonds	\$ 15,670,000	\$ -	\$ 1,150,000	\$ 14,520,000	\$ 585,000
Chattanooga Downtown Redevelopment Corporation:					
Revenue bonds	129,200,000	-	-	129,200,000	-
Notes payable	-	194,315	7,612	186,703	59,780
Total component units	<u>\$144,870,000</u>	<u>\$ 194,315</u>	<u>\$ 1,157,612</u>	143,906,703	<u>\$ 644,780</u>
Original issue premiums and discounts				<u>1,505</u>	
				<u>\$143,908,208</u>	

In prior years and in 2005 the City refunded certain general obligation and sewage facility bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liabilities for the refunded bonds are not included in the City's financial statements. At June 30, 2005, the liabilities for the bonds refunded in 1986, 1992, 1996, 1998, 2002, 2003 and 2005 were \$6,975,000, \$19,600,000, \$11,750,000, \$22,595,000, \$45,555,000, \$44,120,000 and \$51,510,000, respectively.

On April 27, 2005, the City issued \$51,375,000 in General Obligation Refunding Bonds with interest rates ranging from 2.50% to 5.00% for the purpose of refunding the following:

	Bonds Refunded	Refunding Bonds Issued
Governmental Activities	\$22,496,400	\$22,906,508
Business Type Activities:		
Interceptor Sewer System	12,848,368	12,545,129
Solid Waste/Sanitation Fund	10,006,352	9,877,292
Storm Water Fund	<u>6,158,880</u>	<u>6,046,071</u>
	<u>\$51,510,000</u>	<u>\$51,375,000</u>

The effect of refunding the general obligation bonds resulted in a net decrease in total debt service payments over the next 15 years of \$2,808,187 and an economic gain (the difference between the present values of the old and new debt service payments) of \$1,808,815. At June 30, 2005, the liability for the refunded bonds was \$51,510,000.

Debt related to governmental activities at June 30, 2005, consisted of the following:

General Obligation Bonds - The City periodically issues general obligation bonds for the acquisition and construction of major capital facilities. These bonds are direct obligations and are backed by the full faith and credit of the City. Certain bonds are subject to federal arbitrage regulations. These bonds are generally issued as 15 to 30-year serial bonds. General obligation bonds are summarized by issue as follows:

<u>Issue</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
Public Improvement Refunding, Series 1998	4.13 % - 5.50 %	\$ 7,222,400
Municipal Public Improvement, Series 2001	4.50 % - 5.00 %	18,821,200
Public Improvement Refunding, Series 2002	4.00 % - 5.375 %	10,712,000
Refunding Bonds, 2002 Series A	3.00 % - 5.00 %	4,590,356
Hotel-Motel Tax Pledge, Series 2002	3.00 % - 5.00 %	49,705,000
General Obligation, 2003 Series A	2.50 % - 4.20 %	11,360,000
General Obligation, 2005 Series A	2.50 % - 5.00 %	17,436,521
Hotel-Motel Tax Pledge, Series 2005A	2.50 % - 5.00 %	<u>5,469,987</u>
Total payable from the Debt Service Fund		<u>\$125,317,464</u>

Hamilton County Series 1991 - Parking Garage - The City entered into an agreement with Hamilton County for cost sharing with respect to the parking garage for the Hamilton County/City of Chattanooga Courts/Jail complex in the principal amount of \$917,418. Hamilton County issued 15-year serial bonds to cover the cost of construction at rates ranging from 4.5% to 6.5%. Principal and interest payments are due annually to the County beginning 1992 through 2007. The remaining balance at June 30, 2005, is \$121,562.

Tennessee Municipal Bond Fund Loan (1997) - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga is authorized to incur indebtedness up to \$7,908,000 for the purpose of financing certain general government capital projects. The maximum amount authorized by the agreement is being reserved by the Trustee and is disbursed to the City upon request. The loan will be repaid over a 15-year period at variable interest rates through 2012. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2005, is \$4,477,023.

Tennessee Municipal Bond Fund Loan (2003) - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga is authorized to incur indebtedness up to \$6,000,000 for the purpose of paying for certain general government capital projects. The maximum amount authorized by the agreement is being reserved by the Trustee and is disbursed to the City upon request. The loan will be repaid over a 15-year period at variable rates through 2018. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2005, is \$1,901,771.

Tennessee Municipal Bond Fund Loan (2004) - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga is authorized to incur indebtedness up to \$25,000,000 for the purpose of paying for certain general government capital projects. The maximum amount authorized by the agreement is being reserved by the Trustee and is disbursed to the City upon request. The loan will be repaid over a 20-year period at variable rates through 2024. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2005, is \$5,525,378.

Fire Hall Land Note - During 1999 the City acquired land for the construction of a fire hall. In connection with acquiring the property, the City executed a note payable to the former owners. The note bears interest at 9.5% and will be repaid over a 15-year period. The balance at June 30, 2005, is \$33,627.

Fannie Mae American Communities Fund – In July 2003, the City entered into an agreement with Fannie Mae to borrow up to \$5,000,000 for the purpose of funding HOPE VI projects. The loan will be repaid over a 10-year period at variable rates of interest. Interest rates are adjusted quarterly to the published 3-month LIBOR plus 1.5% (5.00% at June 30, 2005). The balance at June 30, 2005, is \$1,534,829.

Chattanooga Downtown Redevelopment Corporation Capital Lease - In October 2000, the City entered into a noncancelable long-term lease with the Chattanooga Downtown Redevelopment Corporation (CDRC), for financing the cost of designing, acquiring, constructing and equipping four facilities in the Tourist Development Zone comprising more than 631,210 square feet at a cost of over \$120 million. Facilities include (1) the Chattanooga-a residential conference center, (2) parking garage, (3) the Development Resource Center, and (4) an expansion of the Chattanooga-Hamilton County Convention and Trade Center. The lease provides for semiannual payments in amounts sufficient to meet the annual debt service requirements on \$129 million in revenue bonds issued by the Industrial Development Board of the City of Chattanooga on behalf of the CDRC, a non-profit corporation. The IDB bonds are secured by payments to be made by the CDRC. The lease payments will be funded by the City's share of the 1/2% increase in the county-wide sales tax passed by county-wide referendum, income from the Chattanooga, state incremental sales tax generated in the Tourist Development Zone and interest income from a debt service reserve fund in excess of \$9 million included as part of the bond issue. In the event these sources are insufficient, the City agreed to appropriate sufficient moneys to make the lease payments. The City's lease payment was \$5,856,374 for the year ended June 30, 2005. The recorded liability under this capital lease at June 30, 2005, is \$115,925,472.

The debt service reserve fund held by the fiscal agent at June 30, 2005 is \$9,786,475. The fiscal agent is required by the agreement to apply any interest on the debt service reserve fund toward the lease payments. The debt service reserve fund will be used to retire debt near the end of the lease.

Equipment Capital Lease - In September 2003, the City entered into an equipment lease-purchase agreement to finance radio communications equipment and software upgrades at the Hamilton County "911" Emergency Communications District totaling \$3,800,000. The lease term is six years and provides for annual payments which began July 1, 2004. The recorded liability under this capital lease at June 30, 2005, is \$2,917,191.

Debt service requirements for general obligation bonds, notes payable, and capital leases are met by the General Fund. The compensated absences liability attributable to governmental activities will be liquidated by the General Fund and the Special Revenue Funds.

Debt related to business-type activities at June 30, 2005, consisted of the following:

<u>Issue</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
EPB:		
Electric System Revenue Bonds, Series 2000	4.50% - 5.38%	\$ 33,600,000
2005 Equipment Notes	4.40% - 4.67%	1,774,000
Interceptor Sewer System Fund:		
Municipal Public Improvement, Series 1998	4.75% - 5.00%	2,690,000
Municipal Public Improvement Refunding, Series 1998	4.30% - 5.50%	13,337,900
Municipal Public Improvement Refunding, Series 2002	3.25% - 4.50%	20,879,342
Refunding Bonds, 2002 Series A	3.00% - 5.00%	24,519,644

<u>Issue</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
Interceptor Sewer System Fund (continued):		
Refunding Bonds, 2003 Series B	3.00 % - 3.25 %	\$ 9,050,000
Refunding Bonds, 2005 Series A	2.50 % - 5.00 %	12,545,129
1992 State Revolving Sewer Loan*	3.98 %	1,297,921
Northwest Georgia Sewer Expansion Project	4.00 %	5,629,576
State Revolving Loan 2003	2.98 %	37,212,858
City of Collegedale Capital Lease	Variable	234,453
Solid Waste/Sanitation Fund:		
Municipal Public Improvement, Series 1998	4.75 % - 5.00 %	1,485,000
Municipal Public Improvement Refunding, Series 1998	4.30 % - 5.50 %	3,686,100
Municipal Public Improvement, Series 2001	4.50 % - 5.00 %	3,202,600
Municipal Public Improvement Refunding, Series 2002	4.00 % - 5.375 %	7,790,112
Refunding Bonds, 2005 Series A	2.50 % - 5.00 %	9,877,292
Storm Water Fund:		
Municipal Public Improvement, Series 1998	4.75 % - 5.00 %	1,105,000
Municipal Public Improvement Refunding, Series 1998	4.30 % - 5.50 %	2,528,600
Municipal Public Improvement, Series 2001	4.50 % - 5.00 %	951,200
Municipal Public Improvement Refunding, Series 2002	4.00 % - 5.375 %	5,693,546
Refunding Bonds, 2005 Series A	2.50 % - 5.00 %	6,046,071
1992 State Revolving Sewer Loan*	3.98 %	1,297,921
Total payable from business-type activities		<u>\$206,434,265</u>

*1992 State Revolving Loan Fund - The City entered into an agreement with the Tennessee Department of Health and Environment to secure a loan for the purpose of constructing a Combined Sewer Overflow Facility located at Ross's Landing. The loan will be repaid in monthly installments through 2013 with interest at 3.98%. The remaining balance at June 30, 2005, is \$2,595,842.

Georgia State Revolving Loan - Pursuant to a loan agreement with the Georgia State Revolving Loan Fund, the City of Chattanooga is authorized to incur indebtedness up to \$7,255,000 for the purpose of financing sewer expansion in Northwest Georgia. The maximum amount authorized by the agreement is being reserved by the Georgia Environmental Facilities Authority and is disbursed to the City upon request. The loan will be repaid over a 20-year period at 4% interest through 2020. The balance at June 30, 2005, is \$5,629,576.

State Revolving Loan 2003 - The City entered into an agreement with the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority to secure a loan for the purpose of financing sewer projects. The loan will be repaid in monthly installments through 2023 at 2.98% interest. The balance at June 30, 2005, is \$37,212,858.

Capital Leases - The City has an agreement with the City of Collegedale to lease and purchase sewer system improvements. Lease payments are due in monthly installments through 2014 at variable rates of interest. The balance on this capital lease at June 30, 2005, is \$234,453.

EPB Equipment Notes - EPB has three installment notes outstanding at June 30, 2005, totaling \$1,774,000. The proceeds of these notes were used for electrical equipment. The notes will be repaid over a 5-year period at interest rates in the range of 4.40% to 4.67%.

Component Units debt at June 30, 2005, consisted of the following:

<u>Issue</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
Metropolitan Airport Authority:		
Series A Refunding Revenue Bonds, Series 2002	2.76% - 2.80%	\$ 12,625,000
Series B Refunding Revenue Bonds, Series 2002	2.76% - 2.80%	1,895,000
Chattanooga Downtown Redevelopment Corporation:		
Chattanooga Lease Rental Revenue Bonds, Series 2000	5.00% - 5.625%	129,200,000
Republic Parking Equipment Loan	7.00%	<u>186,703</u>
Total payable from Component Units		<u>\$143,906,703</u>

Republic Parking Equipment Loan – CDRC entered into an agreement with the Republic Parking System, Inc. The loan is for the purpose of financing parking garage equipment. The loan will be repaid in monthly installments for 36 months at 7.00% interest. The balance at June 30, 2005 is \$186,703.

Principal and interest requirements to maturity for bonds, notes and capital leases, excluding amounts for compensated absences, are as follows:

<u>Year</u>	<u>Primary Government</u>			
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 7,675,357	\$ 13,060,828	\$ 15,925,241	\$ 8,481,220
2007	10,629,678	13,251,015	16,247,222	8,003,316
2008	9,678,802	12,840,967	14,662,435	7,393,135
2009	10,794,362	12,417,456	16,670,862	6,808,246
2010	11,196,272	11,924,828	14,735,628	6,102,358
2011-2015	43,185,588	52,964,209	60,180,752	21,697,776
2016-2020	44,772,833	41,539,253	44,019,881	9,463,947
2021-2025	54,264,350	28,457,225	21,773,444	2,894,790
2026-2030	61,042,075	11,671,406	2,218,800	73,420
2031	<u>4,515,000</u>	<u>112,875</u>	<u>-</u>	<u>-</u>
	<u>\$257,754,317</u>	<u>\$198,240,062</u>	<u>\$206,434,265</u>	<u>\$70,918,208</u>
<u>Year</u>	<u>Component Units</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 644,780	\$ 7,617,139		
2007	3,264,101	7,529,275		
2008	3,552,822	7,372,131		
2009	3,690,000	7,212,661		
2010	3,800,000	7,060,716		
2011-2015	22,175,000	32,388,718		
2016-2020	28,560,000	26,341,002		
2021-2025	29,655,000	18,339,653		
2026-2030	39,315,000	8,419,113		
2031	<u>9,250,000</u>	<u>260,156</u>		
	<u>\$143,906,703</u>	<u>\$122,540,564</u>		

NOTE 10. EMPLOYEE RETIREMENT SYSTEMS

The primary government provides retirement benefits through three single employer defined benefit pension plans (General Pension Plan, Firemen's and Policemen's Insurance and Pension Fund, and EPB Pension Plan). All employees are eligible to participate in one of these retirement benefit plans. The City acts as Trustee for the General Pension Plan and the Firemen's and Policemen's Insurance and Pension Plan, which are included in the accompanying financial statements as pension trust funds. The City does not administer the assets of the EPB Pension Plan. The following is a summary of each of these plans:

City of Chattanooga Administered Pension Plans

Significant Accounting Policies:

Basis of Accounting

The financial statements of the General Pension Plan and the Firemen's and Policemen's Insurance and Pension Fund are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Cash and Cash Equivalents

The cash and cash equivalents of each plan represent balances at the financial institutions that serve as custodians of plan assets, and are not part of the City's centralized cash and investment pool. Occasionally, negative cash balances result from benefit payments and administrative expenses. Negative cash balances are replenished by transfers from investments.

Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

Plan Descriptions:

(1) City of Chattanooga General Pension Plan

The City maintains a single-employer defined benefit pension plan for general City employees. Each participant is required to contribute 2 percent of earnings. The City is currently contributing 4.07 percent of the total covered payroll of the participants, which is the minimum requirement as noted by the most recent actuarial report.

The normal retirement benefit is 2 percent of average earnings multiplied by years of credited service up to twenty (20) years plus one percent of average earnings multiplied by years of credited service in excess of twenty (20) years.

The benefits payable to retirees are increased annually by a 3 percent cost-of-living increase. Future amendments to the plan provisions can be authorized by City ordinance upon recommendation from the Board of Trustees of the General Pension Plan, a statement of impact from the actuary, and a favorable opinion of the Office of Mayor.

The normal retirement date is the first day of the month following the participant's attainment of age 62. Benefits are reduced on a pro rata basis for early retirement. An employee otherwise vested shall be penalized 2.5 percent for each year of age less than 62. However, if the sum of the participant's age and years of credited service is at least eighty (80), there shall be no reduction in the immediate early retirement benefit. A deferred retirement option plan provides alternative benefits for up to 3 years of credited service to eligible members with at least 26 years of credited service.

(2) Firemen's and Policemen's Insurance and Pension Fund

The City maintains a single-employer defined benefit pension plan for the firemen and policemen employed by the City. The Plan is designed for each plan participant to contribute 8 percent of base salary. The City is currently contributing 18.39 percent of the total covered payroll of the participants, which is the minimum requirement as noted by the most recent actuarial report. Increased court costs on all forfeitures of fines or monies or on convictions of violating any City ordinances are recorded as additional contributions to the Plan. The cost of administering the plan is borne by the City.

The normal retirement benefit is 68.75 percent of average base salary, where average base salary is based on the three-year period of service yielding the highest arithmetic average of the participant's salary history. For service beyond 25 years, the benefit is increased 1.25 percent per year up to 30 years of service.

The benefits payable to retirees are increased annually by a 3 percent cost-of-living increase. These benefit provisions may be amended by City ordinance upon recommendation from the Board of Trustees of the Firemen's and Policemen's Insurance and Pension Fund and a favorable opinion of the Office of the Mayor.

The normal retirement date is the first day of the month following the participant's completion of 25 years of credited service. Reduced benefit provisions are available for those participants who have attained age 55 and have completed at least 10 years of credited service. In the event of death, job-related or non-job-related disability, participants who are not yet eligible for normal retirement benefits can receive a percentage of their salary, based on a formula using the three-year period of service yielding the highest arithmetic average of the participant's salary history. A deferred retirement option plan provides alternative benefits for up to 3 years of credit service to eligible members who have 25 years of credited service.

Current membership in each of these plans was comprised of the following as of June 30, 2005:

<u>Group</u>	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>
Retirees and beneficiaries currently receiving benefits	738	655
Vested terminated employees	56	5
Active employees	1,531	799
Actuarial update	1-1-2005	1-1-2005

Trend Information:

	<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
General	12/31/04	\$2,132,773	100.00%	\$(4,343,073)
Pension Plan	12/31/03	2,204,619	100.00%	(3,943,428)
	12/31/02	1,017,617	100.00%	(3,884,735)
Firemen's and	12/31/04	6,190,284	100.00%	(4,313,641)
Policemen's	12/31/03	5,719,267	100.00%	(4,336,014)
Fund	12/31/02	4,518,985	100.00%	(4,372,825)

Funding Policy and Other Information:

The Board of Trustees of each plan establishes and may amend the contribution requirements of plan members and the employer. The City contributes to each plan at an actuarially determined rate. The employer's annual pension cost for the current year and related information for each plan is as follows:

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>
Contribution rates for employer	4.07%	18.39%
Contribution rates for plan members	2.00%	8.00%
Annual pension cost	\$2,132,773	\$6,190,284
Contributions made by employer	2,141,635	6,237,406
Contributions made by plan members	1,047,369	2,616,325
Actuarial valuation date for current contributions	January 1, 2005	January 1, 2005
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level Dollar	Level Percent
Remaining amortization period	30 Years Open	40 Years Open
Asset valuation method	Market Value, As Adjusted	5-Year Average
Actuarial assumptions:		
Investment rate of return	7.75%	8.00%
Projected salary increases	5.00%	3.25%
Inflation rate	3.00%	3.00%

The City's annual pension cost and net pension obligation (asset) related to each plan for the current year were as follows:

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>
Annual required contribution	\$ 2,096,333	\$ 6,073,138
Interest on net pension obligation (asset)	(305,616)	(346,881)
Adjustment to annual required contribution	<u>342,056</u>	<u>464,027</u>
Annual pension cost	2,132,773	6,190,284
Contributions made	<u>(2,532,418)</u>	<u>(6,167,911)</u>
Increase in net pension obligation (asset)	(399,645)	22,373
Net pension obligation (asset) at beginning of year	<u>(3,943,428)</u>	<u>(4,336,014)</u>
Net pension obligation (asset) at end of year	<u><u>\$(4,343,073)</u></u>	<u><u>\$(4,313,641)</u></u>

Financial Reports:

The City of Chattanooga administered plans do not issue stand-alone financial reports and are not included in the report of a public employee retirement system or a report of another entity. The plan financial statements are as follows:

Combining Statement of Plan Net Assets:

	General Pension Plan	Firemen's and Policemen's Insurance and Pension Fund	Total
ASSETS			
Receivables:			
Accrued income	\$ 215,077	\$ 632,943	\$ 848,020
Contributions:			
Employer	169,106	-	169,106
Employee	82,990	-	82,990
Due from plan custodian	-	133,715	133,715
Total receivables	<u>467,173</u>	<u>766,658</u>	<u>1,233,831</u>
Investments, at fair value:			
U.S. Government securities	-	17,180,641	17,180,641
Municipal bonds	-	96,653	96,653
Corporate bonds	4,054,746	21,298,214	25,352,960
Foreign bonds	-	2,871,847	2,871,847
Corporate stocks	87,098,321	102,762,057	189,860,378
Mutual funds - equity	28,850,935	58,094,714	86,945,649
Mutual funds - fixed income	43,968,640	-	43,968,640
Temporary investments	3,013,881	19,854,771	22,868,652
Limited Partnerships	25,716,053	-	25,716,053
Other investments	-	865,000	865,000
Total investments	<u>192,702,576</u>	<u>223,023,897</u>	<u>415,726,473</u>
Total assets	<u>193,169,749</u>	<u>223,790,555</u>	<u>416,960,304</u>
LIABILITIES			
Due to plan custodian	-	750,000	750,000
Accrued expenses	<u>263,550</u>	<u>325,273</u>	<u>588,823</u>
Total liabilities	<u>263,550</u>	<u>1,075,273</u>	<u>1,338,823</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$192,906,199</u>	<u>\$222,715,282</u>	<u>\$415,621,481</u>

Combining Statement of Changes in Plan Net Assets:

	General Pension Plan	Firemen's and Policemen's Insurance and Pension Fund	Total
ADDITIONS			
Contributions:			
Employer	\$ 2,141,635	\$ 6,237,406	\$ 8,379,041
Employee	<u>1,047,369</u>	<u>2,616,325</u>	<u>3,663,694</u>
Total contributions	<u>3,189,004</u>	<u>8,853,731</u>	<u>12,042,735</u>
Investment income:			
Net appreciation in fair market value of investments	11,164,050	16,062,486	27,226,536
Interest	536,607	3,248,305	3,784,912
Dividends	<u>1,986,105</u>	<u>3,191,436</u>	<u>5,177,541</u>
	13,686,762	22,502,227	36,188,989
Less investment expense	<u>(662,584)</u>	<u>(1,002,991)</u>	<u>(1,665,575)</u>
Net investment income	<u>13,024,178</u>	<u>21,499,236</u>	<u>34,523,414</u>
Total additions	<u>16,213,182</u>	<u>30,352,967</u>	<u>46,566,149</u>
DEDUCTIONS			
Benefits paid to participants	8,772,924	17,775,568	26,548,492
Administrative expenses	<u>175,047</u>	<u>479,020</u>	<u>654,067</u>
Total deductions	<u>8,947,971</u>	<u>18,254,588</u>	<u>27,202,559</u>
NET INCREASE	<u>7,265,211</u>	<u>12,098,379</u>	<u>19,363,590</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Beginning of year	<u>185,640,988</u>	<u>210,616,903</u>	<u>396,257,891</u>
End of year	<u>\$192,906,199</u>	<u>\$222,715,282</u>	<u>\$415,621,481</u>

EPB Pension Plan

Plan Description and Provision:

EPB's Retirement Plan (the "Plan") is a Single Employer Defined Benefit Pension Plan administered by an individual designated by EPB. A stand-alone financial report is not issued for this plan. The Plan provides retirement benefits to Plan members. Article VIII of EPB of Chattanooga Retirement Plan assigns the authority to establish and amend benefit provisions to EPB.

Funding Policy:

Contribution requirements of Plan members and the EPB are established and can be amended by the EPB. The Plan does not require Plan members to make a contribution. The EPB is required to contribute at an actuarially determined rate, the current rate is 9.70% of annual covered payroll.

Annual Pension Cost and Net Pension Obligation:

EPB's annual pension cost of the Plan for the current year was \$1,988,000. There is no net pension obligation as EPB has contributed the annual required contribution, adjusted with interest, as calculated by actuarial valuation. The annual required contribution was determined as part of an actuarial valuation performed as of August 1, 2004, using the aggregate cost method. The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities. Significant actuarial assumptions used in the valuation included (a) a rate of return on the investment of present and future assets of 8.0% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, (c) no postretirement benefit increases, and (d) a discount rate of 8.0%.

Trend Information:

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/05	\$1,988,000	100%	\$ -
6/30/04	1,932,000	100%	-
6/30/03	1,310,481	100%	-

EPB 401(k) Plan

EPB also has a 401(k) plan which permits employees to invest up to 13 percent of salary in a tax-deferred savings plan. EPB contributes up to 3.5 percent of an employee's salary. EPB contributions are fully vested and amounted to \$571,000 in 2005.

Pension Plans of Component Units

CARTA is the only component unit with separate defined benefit pension plans, and complete pension disclosures are in CARTA's separately-issued financial statements. Actuarially determined employer contribution requirements were met for the year ended June 30, 2005. Condensed disclosures for CARTA's defined benefit pension plans are as follows:

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
6/30/05	\$397,422	100%	\$(127,952)
6/30/04	397,790	100%	(161,485)
6/30/03	374,804	100%	(172,677)

Postemployment Benefits

The City provides postemployment health and medical benefits for retirees and their dependents in accordance with the applicable City ordinance. Substantially all of the City's employees may become eligible for the benefits if they reach normal retirement age while working for the City. At June 30, 2005, there were 887 employees who had retired and were receiving healthcare benefits. The City is insured for a portion of these benefits. All the associated costs are accounted for in the General Fund and Enterprise Funds. For the year ended June 30, 2005, the City recognized expenditures of approximately \$5,775,645, which was offset by \$1,456,457 of retiree contributions.

NOTE 11. CONSERVATION PROGRAMS

EPB is a fiscal intermediary for the Tennessee Valley Authority's (TVA) conservation programs. As of June 30, 2005, outstanding funds advanced by TVA totaled \$783,000 to be used by EPB for customer loans in connection with TVA's insulation and heat pump conservation programs. At June 30, 2005, the outstanding receivables for loans made from these funds amounted to \$758,000. A total of approximately \$78,417,000 has been loaned to EPB's customers since the programs were begun in 1977.

NOTE 12. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Assets in the plan are recorded at market value but are administered by private corporations under contract with the City. It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The following is a summary of activity in the Plan for the year:

Asset balance at July 1, 2004	\$13,344,820
Deferrals of compensation	822,518
Earnings	630,554
Withdrawals	(962,489)
Administrative expenses	<u>(324)</u>
Asset balance at June 30, 2005	<u>\$13,835,079</u>

NOTE 13. COMMITMENTS AND CONTINGENCIES

The City and its component units are parties to various lawsuits and claims in the ordinary course of their operations. Management believes that the potential adverse impact of these proceedings would not be material to the basic financial statements of the City.

The City has received federal and state grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could result in reimbursements to the grantor agencies for expenditures disallowed under the terms of the grants. At June 30, 2005, the City has accrued liabilities of \$187,493 to reimburse a grantor agency. Subsequent to year-end, the reimbursements were paid and the City recovered \$133,621 from the vendor on this grant. City management is not aware of any additional potential losses from such disallowances.

The City has entered into various construction commitments. Such contracts include contracts for improvements to sewer, solid waste, and storm water systems, and acquisition and construction contracts related to general government capital projects. Several of these contracts were in progress but not completed as of June 30, 2005. The total contractual commitments outstanding as of June 30, 2005, aggregated approximately \$26,159,000. The City has sufficient funds available to cover these commitments.

NOTE 14. CONDUIT DEBT OBLIGATIONS

From time to time, the Industrial Development Board of the City of Chattanooga has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2005, 119 series of Industrial Revenue Bonds had been issued. The principal amount of the series issued after July 1, 1995, was \$188,000,000. The aggregate principal amounts payable for the 108 series issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled \$253,648,700.

NOTE 15. JOINT VENTURE

The Industrial Development Board of Chattanooga, Tennessee, issued Lease Rental Revenue Bonds, Series 1985, dated March 1, 1985, in the amount of \$17,950,000 for the purpose of providing funds to pay the principal and interest on certain bond anticipation notes issued in anticipation of the issuance of the Series 1985 bonds. The proceeds of the bond anticipation notes were used to provide funds for the acquiring, construction, improving, and equipping of certain public building facilities comprised of a trade center and a parking garage owned by Carter Street Corporation, a not-for-profit organization, whose board consists of five members. Two of the members are appointed by the County Mayor and two by the Mayor of Chattanooga. The appointment of the fifth member, who serves as chairman, is agreed on by the County Mayor and the Mayor of Chattanooga.

The City and Hamilton County, Tennessee, as tenants in common, jointly and severally lease from the Corporation the trade center and parking garage. The total amount of rent payable by the City and County is designed to fund the debt of the Corporation and a portion of the Corporation's operating expense. The lease shall remain in effect until such time as the bonds issued on behalf of the Corporation have been fully paid, or provision has been made for such payment. The lease may be terminated prior to such payment if the City or County shall exercise their respective options under the terms of the lease to purchase the project. Upon the repayment of the bonds, the City and County will have equity interests in the Corporation.

While the bonds owed by the Corporation do not constitute an indebtedness of the City or the County, under the terms of the lease the City and County are unconditionally obligated to make rental payments (one-third by the County and two-thirds by the City) to the Corporation which, in the aggregate, will be sufficient to pay principal and interest on the bonds. For the fiscal year ended June 30, 2005, lease payments from the City's General Fund were \$1,419,097.

The following is a schedule of future minimum lease payments required from the City under the terms of the lease:

2006	\$1,415,389
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Complete financial statements can be obtained from:

Carter Street Corporation
P.O. Box 6008
Chattanooga, TN 37401

Condensed financial information for Carter Street Corporation as of June 30, 2005, is as follows:

ASSETS

Cash	\$ 653,350
Accounts receivable, net	2,182,260
Inventories	80,993
Prepaid items	27,753
Capital assets, net	12,714,317
Other assets	<u>76,714</u>
Total assets	<u>\$15,735,387</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 231,852
Accrued interest	40,058
Advance deposits	59,223
Bonds payable	<u>2,087,552</u>
Total liabilities	<u>2,418,685</u>

NET ASSETS

Invested in capital assets, net of related debt	10,631,479
Unrestricted	<u>2,685,223</u>
Total net assets	<u>13,316,702</u>
Total liabilities and net assets	<u>\$15,735,387</u>

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Total operating revenues	\$ 5,415,440
Total operating expenses	<u>6,674,880</u>
Loss from operations	(1,259,440)
Nonoperating revenues	2,506,367
Nonoperating expenses	<u>147,833</u>
Net income	1,099,094
Net assets at July 1, 2004	<u>12,217,608</u>
Net assets at June 30, 2005	<u>\$13,316,702</u>

NOTE 16. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The Solid Waste/Sanitation Fund accounts for the operations of the City landfill, as well as the closure and postclosure care costs of closed landfills (Summit and 36th Street). State and federal regulations require the City to place a final cover on all landfills after closure, and the City must perform certain maintenance and monitoring functions for 30 years thereafter. The City recognizes landfill closure and postclosure care costs based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs of \$9,555,619 at June 30, 2005, is based on the use of 100 percent of the capacity of the Summit landfill, and 89 percent of the capacity of the City landfill. The estimated remaining life of the City landfill is 1.5 years. Changes in the estimated liability for landfill closure and postclosure care costs for the year ended June 30, 2005, are as follows:

Estimated liability, June 30, 2004	\$9,295,666
Expenses recognized	517,996
Costs incurred	<u>(258,043)</u>
Estimated liability, June 30, 2005	<u>\$9,555,619</u>

The City will recognize the remaining estimated costs of closure and postclosure care of \$566,323 as the remaining capacity is used. The estimated total current cost of the landfill closure and postclosure care of \$10,121,942 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired at June 30, 2005. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs and additional costs that might arise from changes in postclosure requirements may need to be covered by charges to future landfill users, taxpayers, or both.

NOTE 17. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; medical benefits; unemployment compensation; injuries to employees; errors and omissions; and natural disasters. The City retains the risk of loss related to torts, certain retiree medical benefits, unemployment compensation, and injuries to employees. The General Fund accounts for all exposures, except for torts, which are accounted for in the Internal Service Fund. To minimize its losses, the City has established a limited risk management program. Premiums are paid by all funds and are available to pay claims, claim reserves, and administrative costs of the program. The premiums are used to reduce the amount of claims expenditures reported in the respective funds. As of June 30, 2005, such interfund premiums did not exceed reimbursable expenditures. There were no significant reductions in insurance coverage in the prior year, nor did the amount of settlements exceed insurance coverage for each of the past three fiscal years.

City employees eligible for medical benefits are fully insured by Cigna Healthcare.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effect of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. The liabilities for claims other than tort claims are reported in governmental funds rather than the general long-term debt account group because they are expected to be liquidated with expendable available financial resources.

Interfund premiums in the Internal Service Fund are based on the insured funds' claims experience. Premiums are adjusted to cover all reported claims. It is anticipated that the settlement of an individual claim will be funded by premiums subsequent to the filing of the claim and prior to its settlement. Changes in the balances of claims liabilities during the year are as follows:

	General Fund	Internal Service Fund
Unpaid claims, June 30, 2003	\$ 481,384	\$ 2,535,000
Incurred claims (including IBNRs)	21,611,723	1,412,820
Claim payments	<u>(21,575,665)</u>	<u>(1,273,820)</u>
Unpaid claims, June 30, 2004	517,442	2,674,000
Incurred claims (including IBNRs)	23,092,250	2,634,175
Claim payments	<u>(22,848,294)</u>	<u>(644,175)</u>
Unpaid claims, June 30, 2005	<u>\$ 761,398</u>	<u>\$ 4,664,000</u>

NOTE 18. COMPONENT UNIT SWAPTION

In March 2004 the Chattanooga Downtown Redevelopment Corporation (CDRC), a component unit of the City, sold by competitive bid a floating-to-fixed interest rate swaption. Information related to the swaption is as follows:

Objective:

CDRC entered into a swaption contract that provided CDRC an up-front payment of \$3,088,000. As a synthetic refunding of its 2000 bonds, this payment represents the risk-adjusted, present-value savings of a refunding in October 2010 without issuing refunding bonds currently. The swaption gave the counterparty the option to require CDRC to enter into a pay-fixed, receive variable interest rate swap. If the option is exercised, CDRC would expect to issue refunding bonds at that date.

Terms:

The swaption was entered into in March 2004. The \$3,088,000 payment was based on a notional amount of \$59,655,000. The counterparty has the option to exercise the agreement on October 1, 2010. If exercised, the interest rate swap will also commence October 1, 2010. The fixed rate swap (5.45%) was set at a rate that, when added to an assumption for remarketing and liquidity costs, will approximate the coupons of the "refunded" bonds. The swap's variable payment would be based on The Bond Market Association Municipal Swap Index (BMA).

Fair value:

At June 30, 2005, the swap had a negative fair value of \$5,535,517, estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon rate bonds due on the date of each future net settlement on the swap.

Market-access risk:

If the option is exercised and refunding bonds are not issued, CDRC would be obligated to make net swap payments as required by the terms of the contract. If the option is exercised and variable-rate bonds are issued, the actual savings ultimately recognized by the transaction will be affected by the relationship between the interest rate terms of the to-be-issued variable-rate bonds versus the variable payment on the swap.